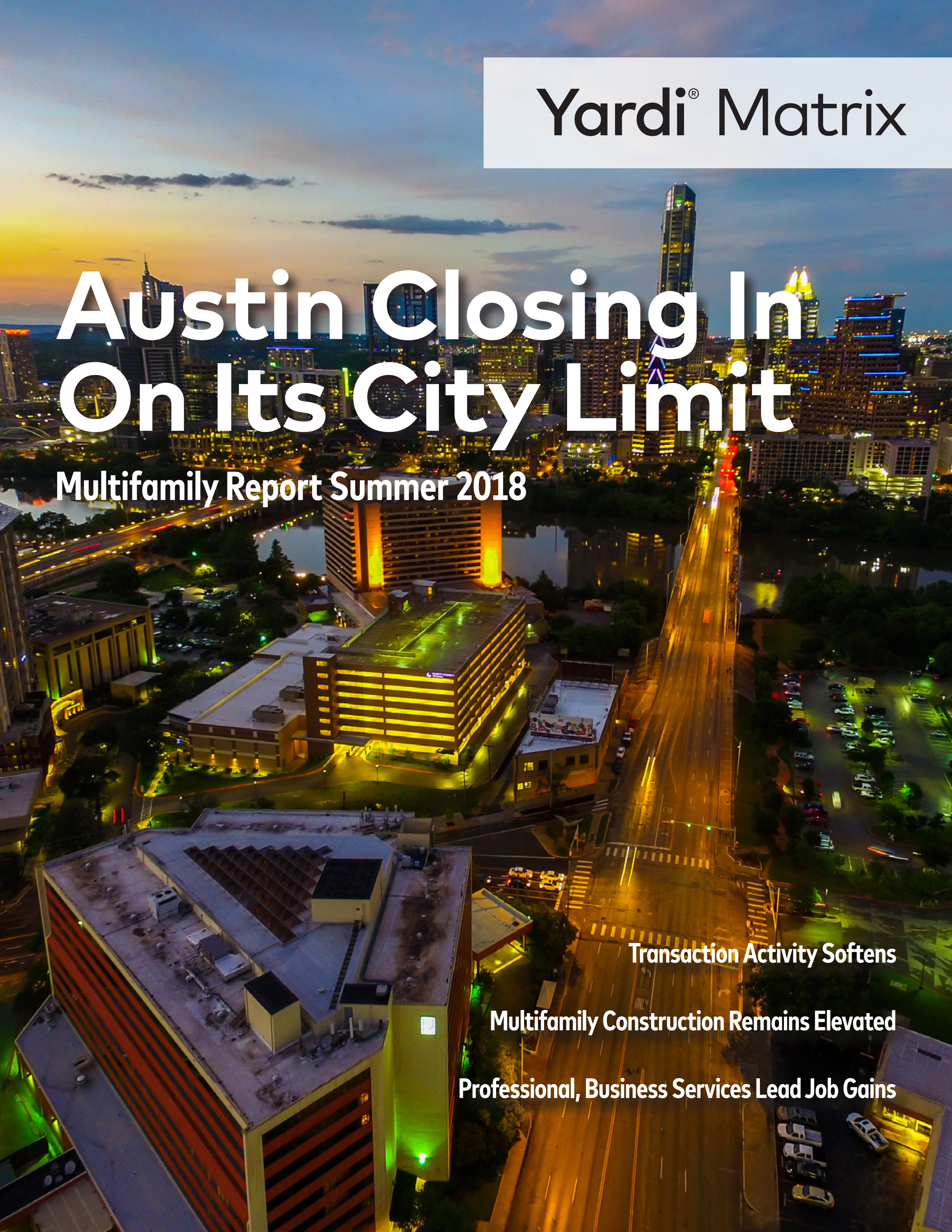
Yardi® Matrix

Austin Closing In On Its City Limit

Multifamily Report Summer 2018



Transaction Activity Softens

Multifamily Construction Remains Elevated

Professional, Business Services Lead Job Gains

Market Analysis

Summer 2018

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Construction Surge Hinders Rent Growth

Austin's multifamily market showed its resilience in the first half of 2018, coping with issues such as a lack of affordability and continued supply growth, pushing the occupancy rate in stabilized assets to 93.7% as of April, down 100 basis points in 12 months. Despite these headwinds, rent growth stayed positive, up 1.3% year-over-year through June to $1,323. Demand for housing remains consistent, supported by an expanding population and robust job growth, up 3.5%, more than double the U.S. average.

Employment gains were diversified, occurring across all industries except the public sector. Austin added 36,300 jobs year-over-year through April, supported primarily by professional and business services, up by 12,600 positions, as several tech giants including Oracle, Apple and Amazon have begun filling their recently opened outposts in the metro. With roughly 3.8 million square feet of office space underway, Austin will continue to attract the tech industry. Trade, transportation and utilities (8,200 jobs) and leisure and hospitality (7,900) round out the metro's top three most active sectors.

Transaction activity softened, with an investment volume of $502 million in the first half of 2018, about a third of last year's total sales. With deliveries anticipated to cross the 12,000-unit mark by year-end, we expect rents to rise by 1.0% in 2018.

Recent Austin Transactions

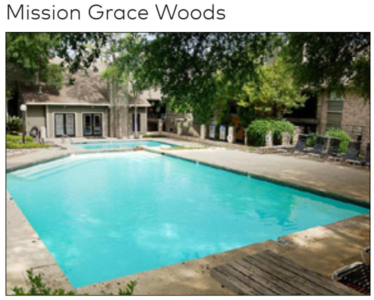
The Emerson

City: Pflugerville, Texas
Buyer: QVT Mount Auburn Capital
Purchase Price: $52 MM
Price per Unit: $135,417

Lakeshore Pearl

City: Austin, Texas
Buyer: Cypress Real Estate Advisors
Purchase Price: $52MM
Price per Unit: $223,913

Mission Grace Woods



City: Austin, Texas
Buyer: InterCapital Partners
Purchase Price: $47 MM
Price per Unit: $108,527

Landmark at Barton Creek

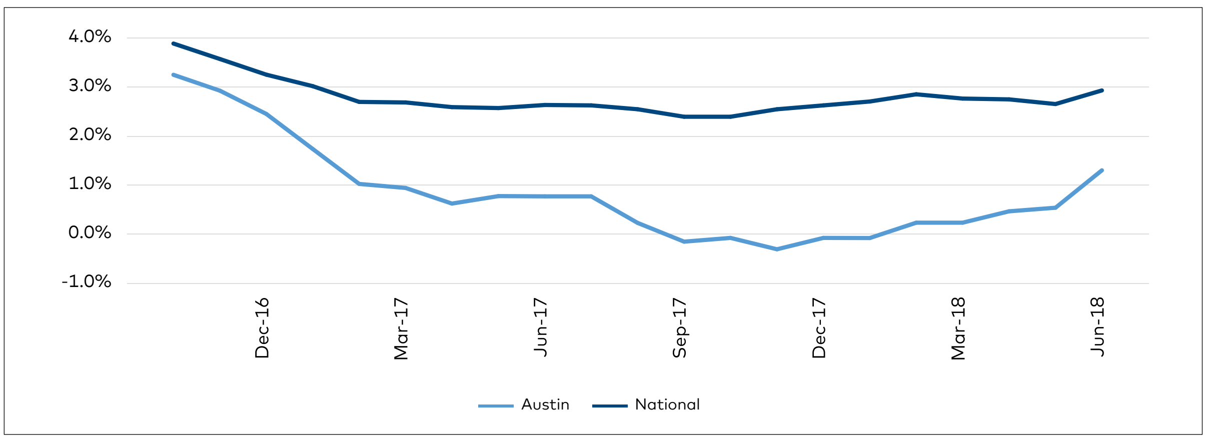
City: Austin, Texas
Buyer: Magnolia Capital
Purchase Price: $43 MM
Price per Unit: $143,217

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

Rent Trends

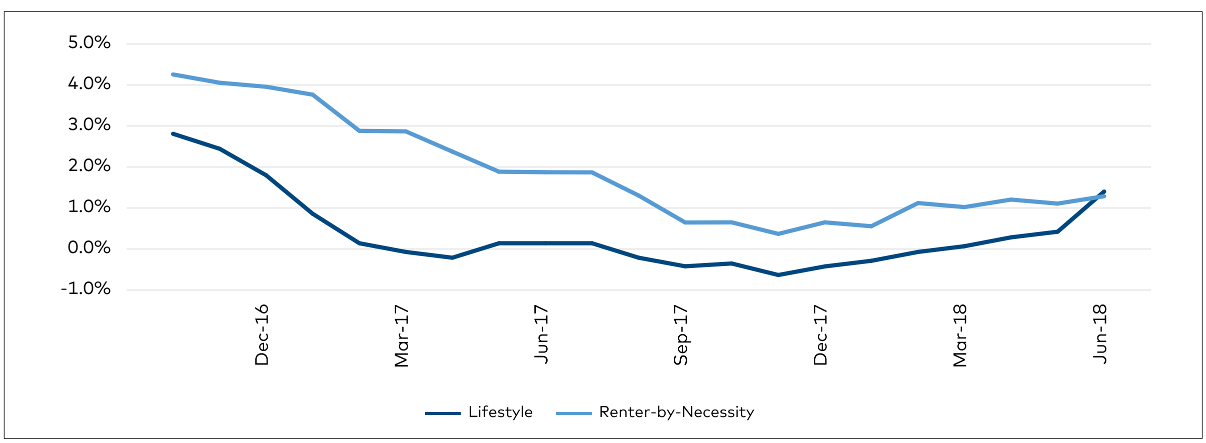
- Austin was one of the slowest metros for rent growth through the year's midpoint, at 1.3% year-over-year, 160 basis points below the national growth rate. The average overall rent was $1,323, trailing the national average of $1,405.
- Rents in the working-class Renter-by-Necessity segment grew at a marginally higher rate than those in the Lifestyle segment, up 1.4% year-over-year to $1,101. Improvement in the upscale segment lagged by 10 basis points through that interval, leading average rents to $1,445. RBN assets continue to outperform the Lifestyle segment, as demand for workforce housing remains high.
- About 11 Austin submarkets saw rent dips in 2018, with Pleasant Hill–East posting the steepest drop, down 2.5% to $1,083. Although largely tepid even in the fastest growing submarkets, rent growth occurred in a wide variety of areas, including in urban quadrans—Downtown–North (4.3% year-over-year)—and sectors of the metro with inventory consisting mostly of workforce and fully affordable housing stock—Berkman Dr (8.0%), St. Johns Park (6.9%) and Taylor (4.5%).
- This year's anticipated high deliveries will continue to mitigate demand, resulting in tepid levels of rent hikes going forward. We expect growth to hold at 1.0% 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)

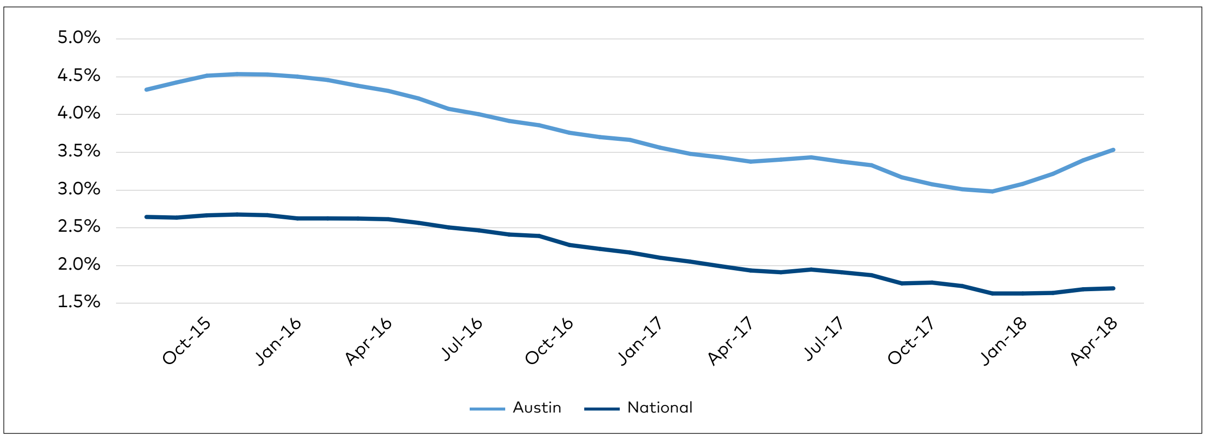


Source: YardiMatrix

Economic Snapshot

- Austin added 36,300 new jobs in the 12 months ending in April, up 3.5% year-over-year and more than double the 1.7% U.S. rate. Unemployment is among the lowest in the country, at 2.8% in April, as the metro slowly nears full employment.
- Job growth was led by the professional and business services sector, up 7.3% with the addition of 8,200 jobs year-over-year through April—Apple, Facebook, Google, Oracle and Amazon have been filling their recently opened campuses and downtown offices. Startups are having a bullish year too, with ATX Seed Ventures, LiveOak Venture Partners, Silverton Partners, Next Coast Ventures attracting funding from their investors, at more than $110 million as of June. Trade, transportation and utilities added 8,200 jobs and will likely maintain the trend, aided by the expansion of the Austin-Bergstrom International Airport, slated for completion in early 2019, and by Delta's interest in turning the metro into one of its four Focus Cities across the U.S.
- Austin's office market is benefiting from consistent growth among tech heavyweights and startups alike. Vacancy inched closer to the 11% mark this spring, largely due to the delivery of six new office buildings encompassing nearly 600,000 square feet. According to Yardi Matrix, there were 21 properties underway in the metro as of June, totaling 3.8 million square feet, but demand is expected to keep up.

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	%
60	Professional and Business Services	186	17.5%	12,600	7.3%
40	Trade, Transportation and Utilities	183	17.2%	8,200	4.7%
70	Leisure and Hospitality	133	12.5%	7,900	6.3%
15	Mining, Logging and Construction	64	6.0%	2,900	4.8%
80	Other Services	47	4.4%	2,300	5.2%
65	Education and Health Services	122	11.5%	1,700	1.4%
55	Financial Activities	61	5.7%	1,700	2.9%
50	Information	31	2.9%	1,200	4.1%
30	Manufacturing	57	5.4%	600	1.1%
90	Government	181	17.0%	-2,800	-1.5%

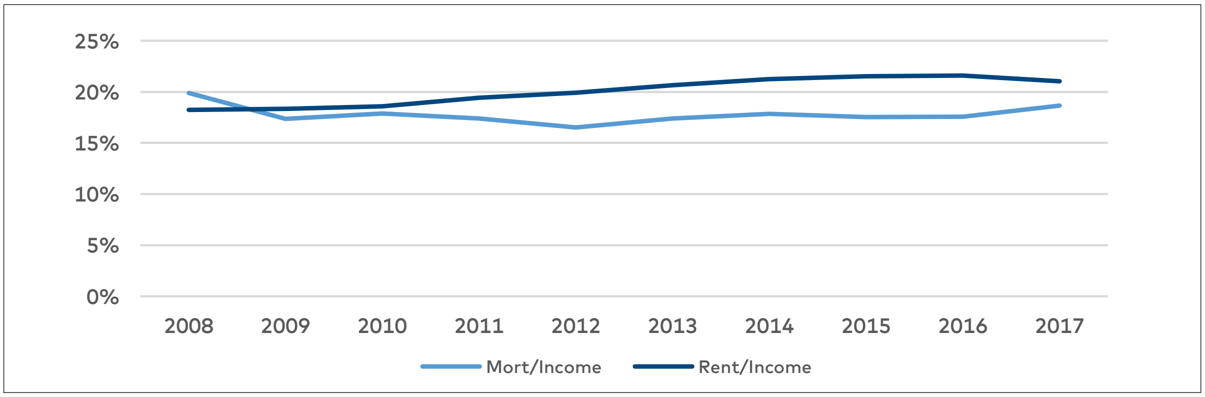
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

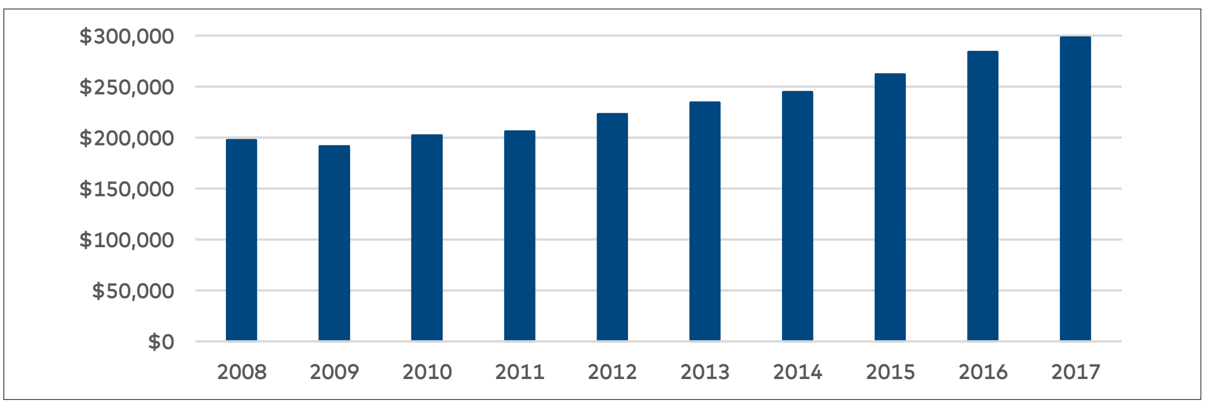
- The median home price in Austin rose to $298,066 in 2017, a 4.9% increase year-over-year, and 51% over the 2009 value—its lowest this cycle. Owning, accounting for 19% of the median income, is less expensive than renting (21%). However, down payment costs exceed many buyers' capabilities.
- Austin is among the top 10 most under-supplied metros in the country, as developers struggle with a low availability and high cost of land. The Austin City Council recently approved a $925 million bond issue, $250 million of which will be directed toward housing. Scheduled for a November ballot, the measure calls for a tax hike of $2 per $100 of property value.

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 grew by 55,269 residents in 2017, up 2.7%, well ahead the national rate of 0.7%.
- Nearly 232,300 residents moved to Austin since 2013, a solid 12.3% increase.

Austin vs. National Population

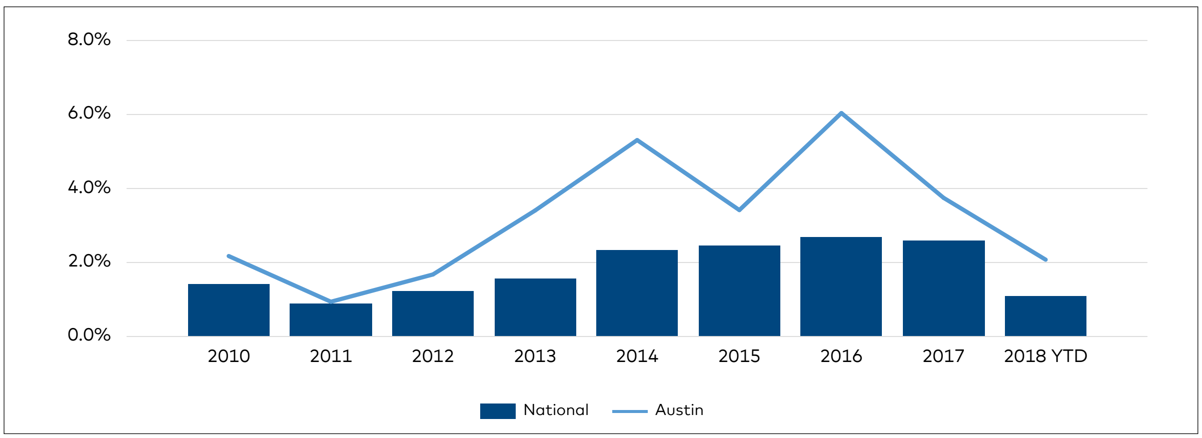
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Austin Metro	1,883,528	1,942,255	2,000,784	2,060,558	2,115,827

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

Supply

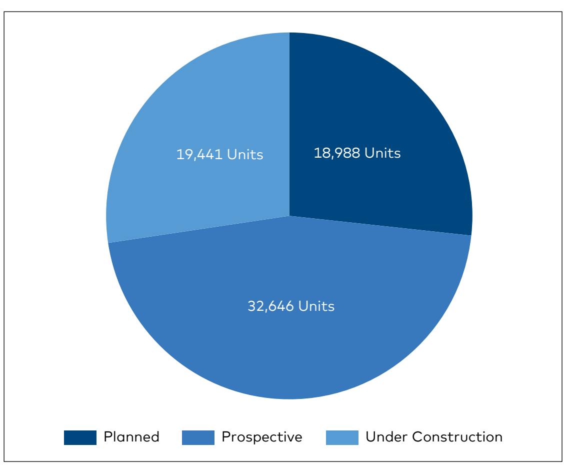
- Roughly 4,600 units were delivered in Austin during the year's first half, all in the upscale Lifestyle segment. Even though it is becoming more difficult for developers to identify new project sites in the current market, supply increases continue to be consistent in Austin.
- Nearly 19,500 units were under construction as of June, and more than 10,100 units are slated for completion by year-end. The pipeline also consists of more than 51,000 units in the planning and permitting stages, pointing to future inventory growth for the metro. The occupancy rate for stabilized properties is among the lowest in the country, having slid 100 basis points year-over-year through April, to 93.7%. With the bulk of new development keeping focus on the cost-effective Lifestyle segment, the supply imbalance is poised to continue.
- Construction activity is heightened across the map, as six submarkets had more than 1,000 units underway as of June. The IBM area led the way with 1,828 units, followed by San Marcos/Kyle (1,728 units) and Pershing (1,558 units). The largest property underway is the 800-unit Plaza Saltillo in Pershing, owned by Endeavor Real Estate Group, Columbus Realty Partners and DMA Properties.

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



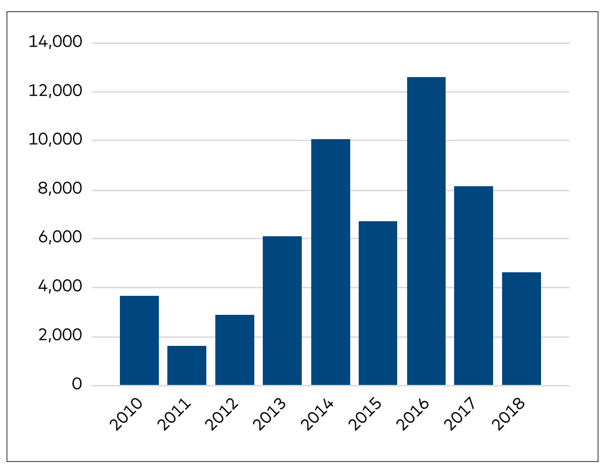
Source: YardiMatrix

Development Pipeline (as of June 2018)



Source: YardiMatrix

Austin Completions (as of June 2018)

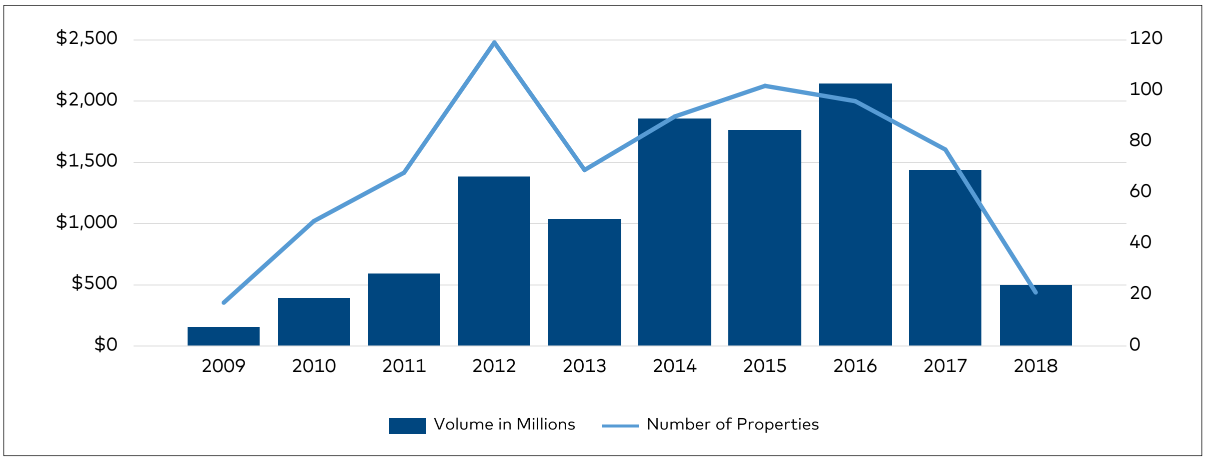


Source: YardiMatrix

Transactions

- Transaction activity has softened gradually since reaching $2.1 billion in 2016. By June 2018, some $502 million in multifamily assets traded in Austin, roughly one-third of 2017's investment total. Buyer and seller expectations diverge, partly due to the buyers' holdout based on elevated property valuations, while investors are reluctant to pay top dollar, putting a damper on transaction activity.
- Of the 21 properties that changed ownership in 2018, the share of RBN and Lifestyle assets was almost identical. Per-unit prices reached an average of $138,003 in June, up 3.3% over the 2017 level. The national average was up 7.9% to $150,760. The top three most active submarkets in Austin saw a combined confirmed sales volume of more than $400 million in the 12 months ending in June: East Central Austin ($165 million), San Marcos/Kyle ($131 million) and Downtown–North ($121 million). The most expensive asset to trade in 2018 through June was Ocotillo, a 308-unit multifamily property for which Price Realty paid $52 million—or $170,130 per unit—to Ardent Residential.

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



Source: YardiMatrix

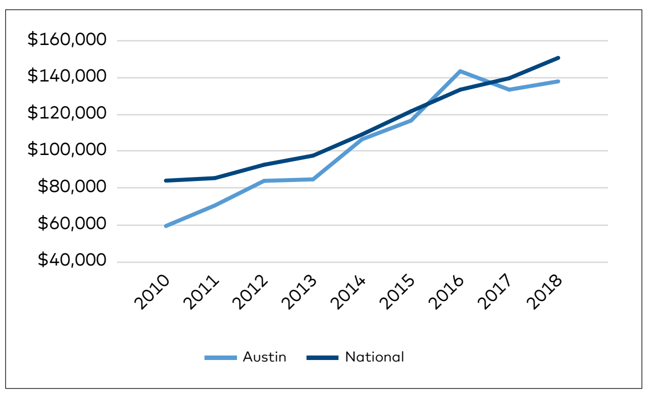
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
East Central Austin	165
San Marcos/Kyle	131
Downtown–North	121
Pleasant Hill–East	67
Pleasant Hill–West	64
University of Texas	63
Oak Hill	52
Pflugerville	52

Source: YardiMatrix

[1] From July 2017 to June 2018

Austin vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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MULTI-HOUSING NEWS

TIAA Grabs Newly Built Luxury Asset

Casey Development offloaded the 246-unit Tacara Steiner Ranch, which opened in February. Following the sale, Pinnacle assumed management of the luxury property.

RBJ Center in Texas Begins Renovation, Redevelopment

The existing 16-story tower will be revamped and a new five-story building will be added. Upon completion, the property will have more than 500 apartments for seniors.

Senior Resource Group Debuts In Texas With Tower Project

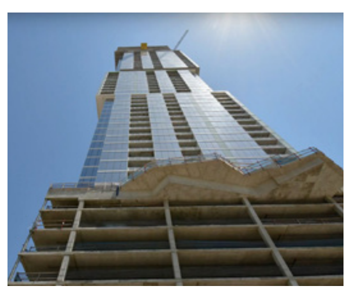
Scheduled for completion in 2019, the 230-unit community is designed for residents age 62 and older.

StreetLights Residential Breaks Ground on Luxury Community

The Elizabeth at Presidio, a 373-unit community that marks the firm's second asset in the area, is situated within walking distance of the Lakeline Metrorail commuter station.

Lincoln Ventures Breaks Ground On Ruckus 2.0

The 67-unit, 239-bed student housing community is the sequel to The Ruckus, a project completed last summer and situated west of the UT campus.



Record-Breaking Tower Tops Out

Located downtown, The Independent—the tallest residential tower west of the Mississippi River—rises 685 feet and comprises 58 stories.

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Top 10 Affordable Communities Delivered In Austin

MULTI-HOUSING NEWS
data by
Yardi® Matrix

By Anca Gagiuc

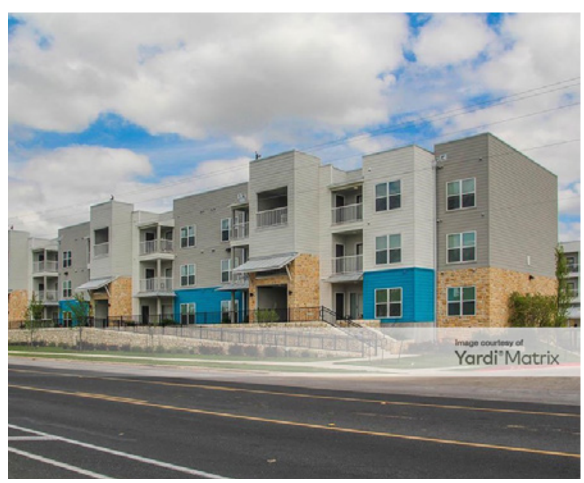
Austin's booming economy sustains increased demand for multifamily properties, and its rapid top-heavy growth is affecting housing affordability. Over the past 18 months, nearly 2,000 affordable units have been delivered o the market.

Land availability and construction costs are not as favorable as they were a few years back, further deepening the issue. Recent accelerated growth is taking its toll on residents, as affordability, congestion and other structural challenges arise.

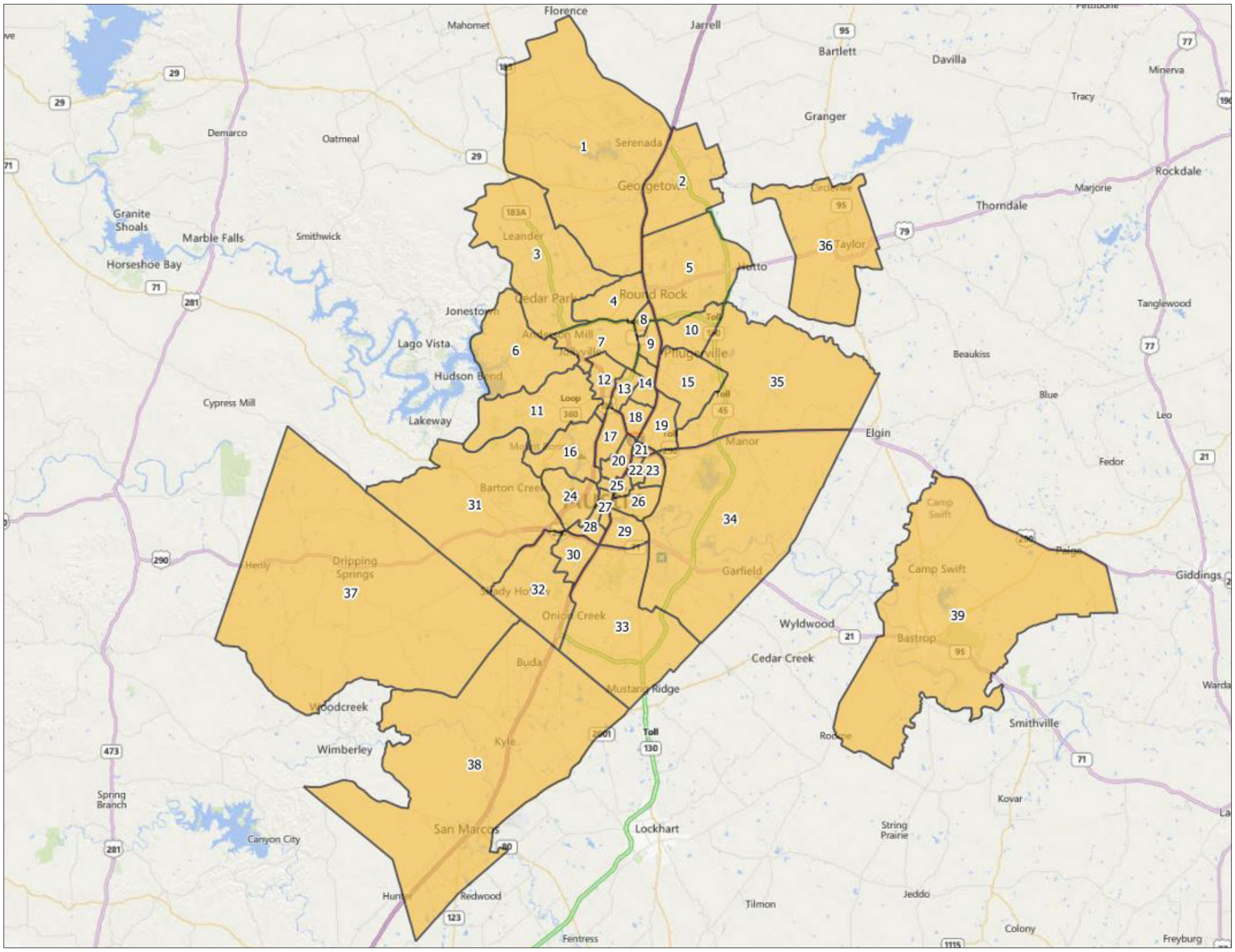
Property Name	City	Address	Submarket	Units	Completion Date
The Reserve at Springdale	Austin	5605 Springdale Road	Berkman Drive	292	10/15/2017
Heights on Parmer	Austin	1500 E. Parmer Lane	Dessau	266	03/15/2017
Tuckaway Apartment Homes	Cedar Park	1700 Bagdad Road	Cedar Park	256	09/15/2017
Aldrich 51	Austin	2604 Aldrich St.	Capital Plaza	240	01/01/2018
Harris Branch Senior	Austin	12433 Dessau Road	Dessau	216	07/27/2017
Fairway Landings at Plum Creek	Kyle	510 Kohler's Crossing	San Marcos/Kyle	216	07/01/2018
Urban Oaks	Austin	6725 Circle South Road	Pleasant Hill–West	194	05/31/2018
Lakeline Station	Austin	13635 Rutledge Spur	Cedar Park	128	12/30/2017
Cardinal Point	Austin	11015 Four Points Drive	Anderson Mill	120	03/01/2018
Eudaimonia Sober Living	Austin	7211 Northeast Drive	Berkman Drive	54	03/31/2017

THE RESERVE AT SPRINGDALE

Developed by Ryan Cos., the 292-unit community consists of four buildings spread across more than 21 acres at 5605 Springdale Road in the Berkman submarket. The property received a $24.3 million construction loan, issued in July 2015 by Austin Affordable Public Facility Corp., with BOK Financial as trustee. The unit mix features one- to three-bedroom apartments ranging from 639 to 1,202 square feet, with rents starting at $913 and going up to $1,255 per month. Amenities at the community include a fitness center, a swimming pool, a playground, a business center and 464 parking spaces.



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.