



Yardi® Matrix

Austin: The Small Metro That Could

Multifamily Report Fall 2018

Employment Growth Outpaces Nation

Construction Surges Across the Metro

Demand Keeps Up With Supply

Market Analysis

Fall 2018

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Job Growth Moderates Stock Surge

The smallest of the state's top four metros, Austin is one of the fastest-growing cities in the country, thanks to its low cost of living, top-notch talent, diverse and growing population and high quality of life. Rent growth, softened by recent deliveries, is picking up again, at 2.4% year-over-year through August, to \$1,339. There are signs of healthy demand, despite a 20-basis-point decrease in occupancy rates year-over-year.

Employment growth has been diverse and above U.S. trends, up 3.5% year-over-year through June. Austin added 35,700 jobs in the 12 months ending in June, with professional and business services leading the way—up by 11,600 jobs. The trade, transportation and utilities sector is expected to grow as well, thanks to the airport expansion scheduled to open early next year. Austin's many festivals and pro-business climate are propping up improvement in the leisure and hospitality sector.

More than 7,000 units were delivered by August, half of them coming online during the summer months, while some 6,500 units were slated for completion by year-end. Nearly \$657 million in multifamily properties traded in the metro by July, with the per-unit price sliding to \$129,719, trailing the \$147,630 national average. Yardi Matrix expects rents to rise 1.0% in 2018.

Recent Austin Transactions

Ocotillo



City: Austin, Texas
Buyer: Price Realty
Purchase Price: \$52 MM
Price per Unit: \$170,130

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: \$52 MM
Price per Unit: \$223,913

Mission Grace Woods

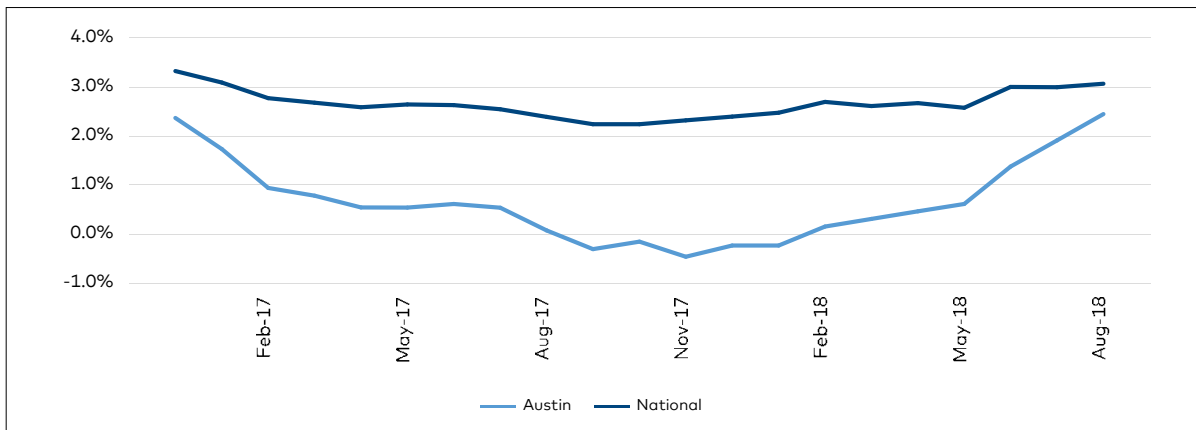


City: Austin, Texas
Buyer: InterCapital Partners
Purchase Price: \$47 MM
Price per Unit: \$108,527

Rent Trends

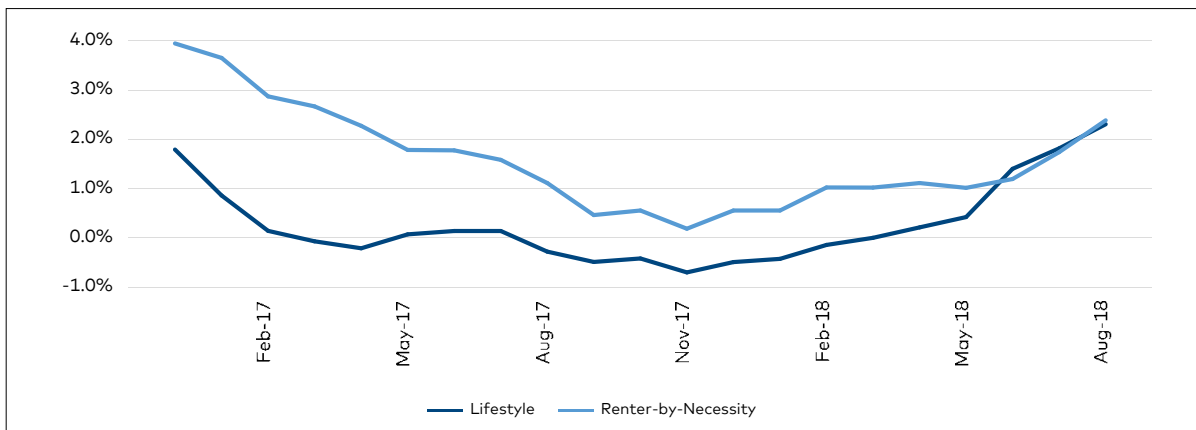
- After negative rent movement in late 2017 and a slow start to the year, Austin rents bounced back, up 2.4% year-over-year through August. The average rent was \$1,339, \$73 below the national average. The heightened volume of deliveries has kept rent growth below the 3.1% national growth rate.
- Rent gains were almost in lockstep across segments, with working-class Renter-by-Necessity assets leading growth by 10 basis points compared to Lifestyle properties, which climbed 2.3% year-over-year through August. The average rent in the RBN segment rose to \$1,115, while Lifestyle rents reached \$1,462.
- Although still spotty, growth is evening out, with only four submarkets contracting in the 12 months ending in August. Average rents stayed below the \$1,000 mark in only three submarkets: Taylor (up 4.6% year-over-year to \$913), Eubanks Acres–South (up 3.8% to \$968) and St. Johns Park (up 6.6% to \$990). All three submarkets ranked in the top 10 for year-over-year rent appreciation through August.
- Despite the consistent inventory expansion, demand will likely be able to keep up, with rent growth positive through year’s end.

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)

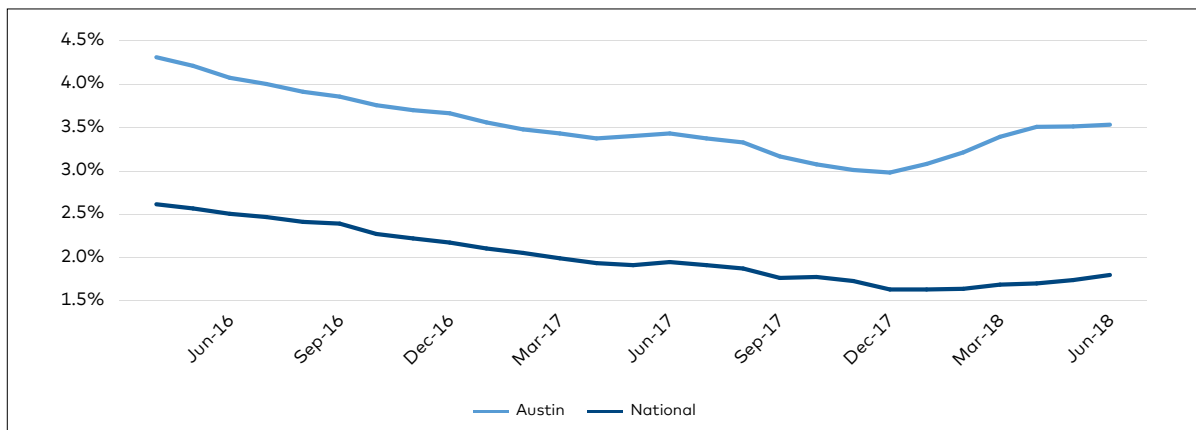


Source: YardiMatrix

Economic Snapshot

- Austin added 35,700 new jobs in the 12 months ending in June, up 3.5% year-over-year and almost double the 1.8% national rate. The metro continues to benefit economically from an influx of businesses and people, resulting especially from a number of companies fleeing the high costs of doing business in Northern California. Consequently, Austin's unemployment rate clocked in at 3.2% in June.
- With 11,600 new jobs, professional and business services led growth. Oracle has opened its built-to-suit 560,000-square-foot LEED-certified campus in Austin's Southeast submarket, housing some 5,000 employees and able to accommodate as many as 10,000. With the current nine-gate expansion at the Austin-Bergstrom International Airport slated for completion in early 2019, trade, transportation and utilities is expected to increase, as well. The sector had already gained 8,800 new positions year-over-year through June.
- The leisure and hospitality sector is booming, thanks to the metro's large number of festivals each year, including South by Southwest (SXSW) and Austin City Limits. Currently underway are the 37-story Fairmont, a 32-story Aloft and a 24-story Hotel ZaZa.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	188	17.5%	11,600	6.6%
70	Leisure and Hospitality	136	12.7%	8,900	7.0%
40	Trade, Transportation and Utilities	185	17.2%	8,800	5.0%
15	Mining, Logging and Construction	65	6.1%	2,500	4.0%
55	Financial Activities	62	5.8%	2,400	4.0%
30	Manufacturing	59	5.5%	1,500	2.6%
50	Information	31	2.9%	1,300	4.3%
80	Other Services	47	4.4%	1,200	2.6%
65	Education and Health Services	119	11.1%	-100	-0.1%
90	Government	181	16.9%	-2,400	-1.3%

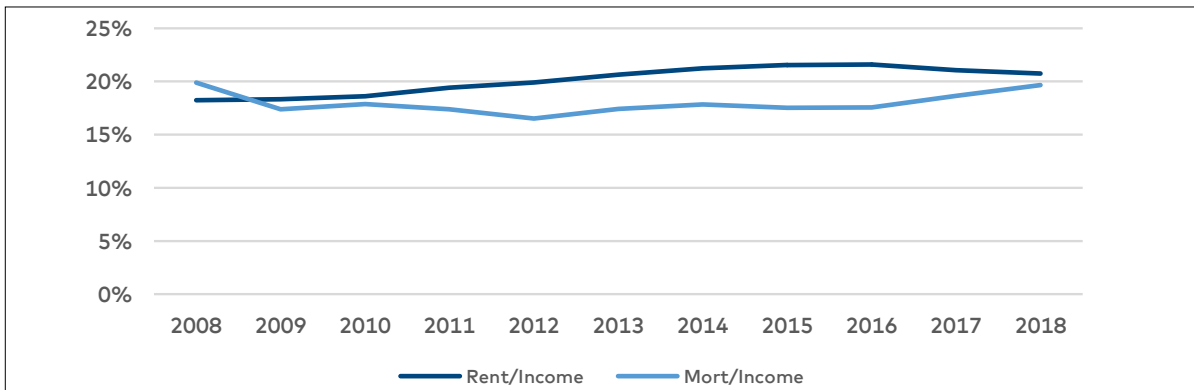
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

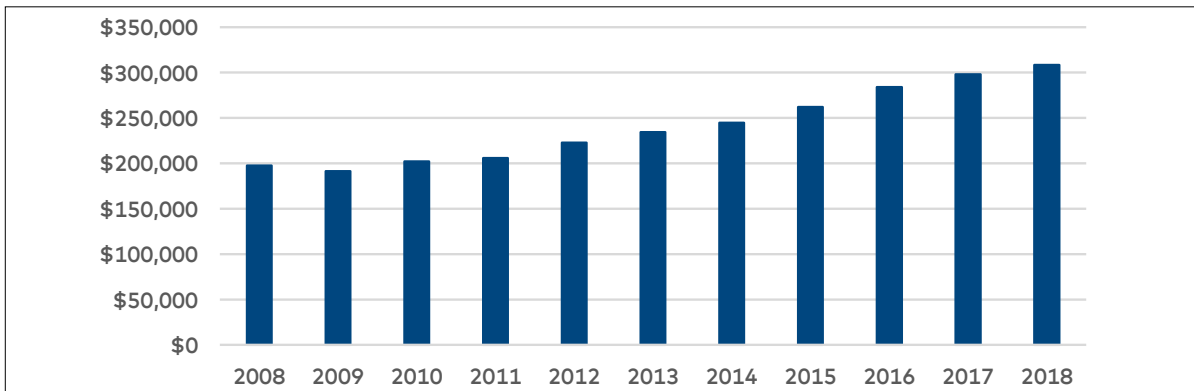
- The median home price in Austin continued to rise through the year's first half, up 3.4% compared to 2017 levels, to \$308,283, surpassing the \$300,000 mark for the first time ever. The gap between owning and renting is slowly closing, as rents accounted for 21% of the area's median income, while owning encompassed 20%.
- As of September, four fully affordable communities totaling 770 units had been delivered in Austin in 2018. The supply pipeline has more than 4,600 units underway in fully and partially affordable communities, more than 1,500 of them slated for completion by year's end.

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 was the ninth-fastest-growing metro in the country, per 2017 population estimates from the Census Bureau.
- Net migration has slowed—in 2017, 55,269 people moved to Austin, about 3,000 fewer than the prior year.

Austin vs. National Population

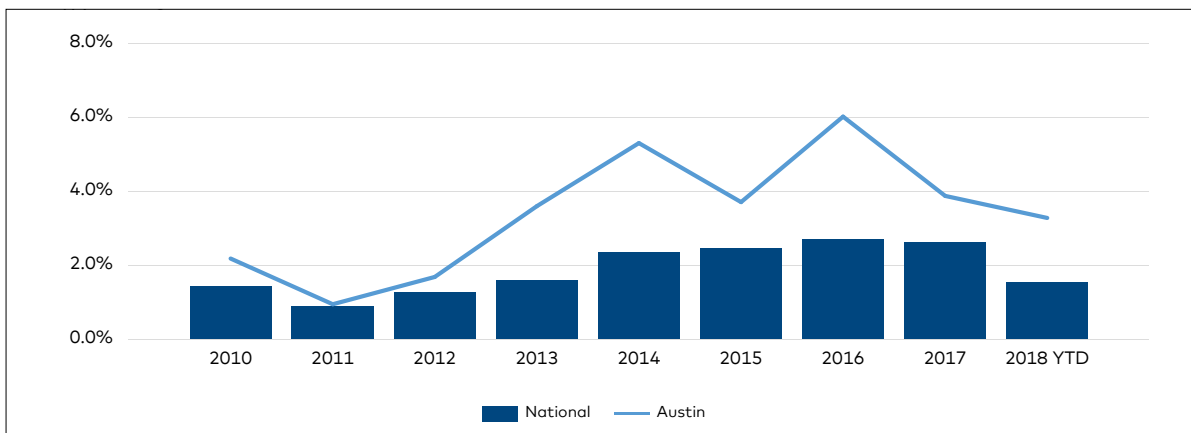
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Austin Metro	1,883,528	1,942,255	2,000,784	2,060,558	2,115,827

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

Supply

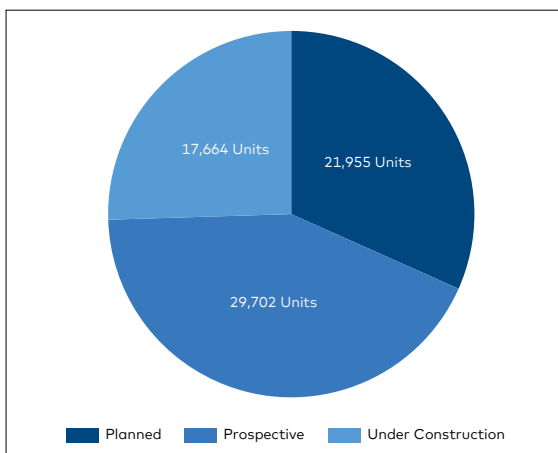
- More than 7,000 units came online in Austin through August, with deliveries picking up steam in the summer months—nearly half the units delivered so far this year were finalized during July and August. All deliveries were in Lifestyle communities.
- The metro had nearly 18,000 units under construction as of August, including about 6,500 units that are slated for completion in 2018, while more than 51,000 units were in the planning and permitting stages. The occupancy rate in stabilized assets was 94.4% in July, down 20 basis points year-over-year, signaling that despite the consistent inventory, demand for apartments is strong enough to keep up. With new inventory favoring the Lifestyle segment, the supply imbalance is likely to deepen.
- Construction activity is elevated across the metro, with six submarkets alone—each with at least 1,000 units underway—totaling in excess of 8,000 rental units. Dessau led the way with 1,867 units, followed by Pershing (1,419 units), the IBM area (1,241 units) and San Marcos/Kyle (1,221 units). The largest project underway, slated for delivery by year's end, is Trammell Crow's 353-unit Crestview Commons. The LEED-proposed asset started pre-leasing in January and was 45% occupied by August.

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



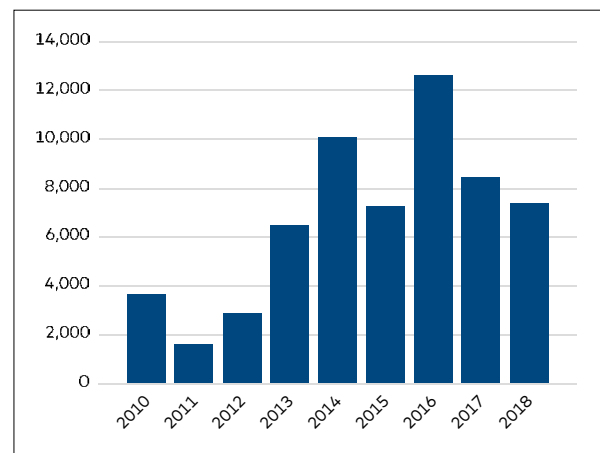
Source: YardiMatrix

Development Pipeline (as of August 2018)



Source: YardiMatrix

Austin Completions (as of August 2018)

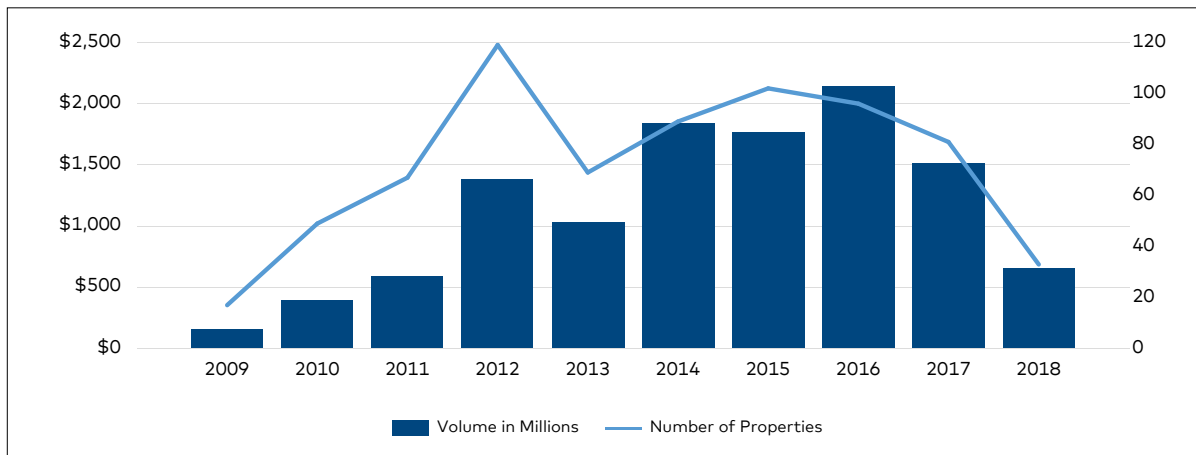


Source: YardiMatrix

Transactions

- Transaction activity remained moderate in Austin, as roughly \$657 million in multifamily properties changed hands in the metro through July, less than half of last year's \$1.5 billion sales total. Of the 33 properties that traded, 18 were in the RBN segment, which resulted in the lowering of the average price per unit by 2.1%, to \$129,719. That still trails the \$147,630 national average. The average per-unit price for RBN assets was around \$115,000, while Lifestyle assets claimed about \$153,000 per unit.
- Investors are rushing to Austin, drawn by its healthy demographics and friendly business climate that attracts businesses from all over the country. The most sought-after submarkets by multifamily investors were those lining Interstate 35. In the 12 months ending in July, submarkets that drew the largest amount of capital were East Central Austin (\$196 million), San Marcos/Kyle (\$136 million) and Downtown–North (\$121 million).

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



Source: YardiMatrix

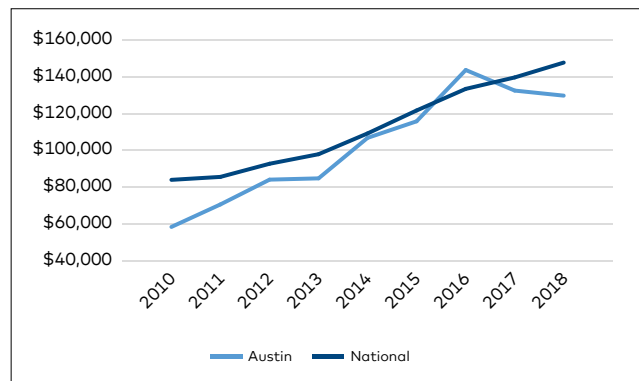
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
East Central Austin	196
San Marcos/Kyle	136
Downtown–North	121
Eubank Acres–South	71
Oak Hill	69
Pleasant Hill–East	66
Pleasant Hill–West	64
Pflugerville	52

Source: YardiMatrix

¹ From August 2017 to July 2018

Austin vs. National Sales Price per Unit



Source: YardiMatrix

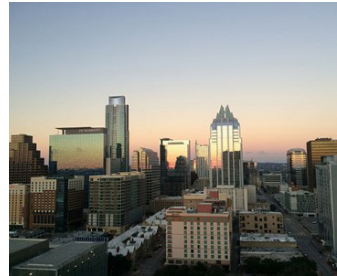
News in The Metro

Brought to you by:



Asset Campus To Manage TX Student Housing

The \$34 million San Marcos project will feature 510 beds and 32,000 square feet of retail space, with Tiff's Treats, McAllister's, Summer Moon Coffee Bar and Blaze Pizza among its tenants.



KeyBank Secures Construction Loan For Affordable Housing

The community will include 302 units and will be developed by a public-private partnership between The NRP Group and Strategic Housing Finance Corp. of Austin County.



Maravilla at the Domain Tops Out

The 230-unit senior living community, on track to meet its anticipated completion in mid-2019, will be served by more than 200 employees.



CA JV Acquires Value-Add Asset

Dekel Strategic Investors and Arrowroot Real Estate are planning to make renovations to Mueller Place, which was built in 1969.



Trophy Tower Changes Hands

American Realty acquired Northshore, a 439-unit property with 52,083 square feet of retail and office space, from High Street Residential.

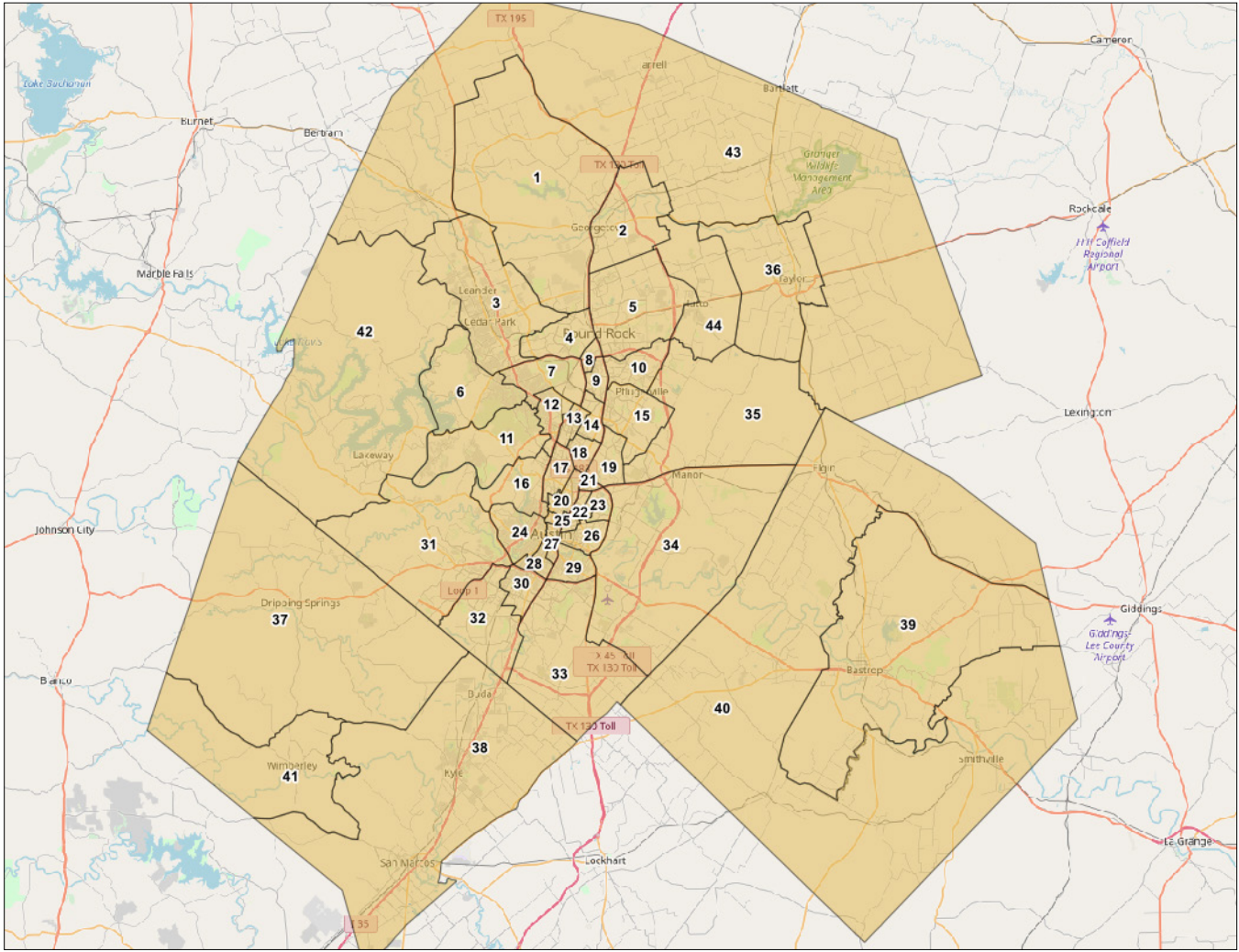


Leon Capital Breaks Ground

The 262-unit Society will have a heavy focus on technology, pulling inspiration from the city's reputation as a tech destination.

Log on to Multi-HousingNews.com to get the latest metro-specific news.

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 Blvd
17	Abercrombie
18	Eubank Acres–South
19	Walnut Forest
20	Hyde Park
21	St Johns Park
22	Capital Plaza

Area #	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 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.

Market Data & Analysis

Fogelman drives deals with Yardi® Matrix

A black and white portrait of Mark Fogelman, a middle-aged man with short dark hair, wearing a dark suit jacket, a light-colored patterned shirt, and a light-colored patterned tie. He is smiling slightly and looking directly at the camera. The background behind him is a solid blue color.

"Yardi Matrix is a major contributor to our profitable investments and informed property management."

Mark Fogelman
President
Fogelman Properties

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