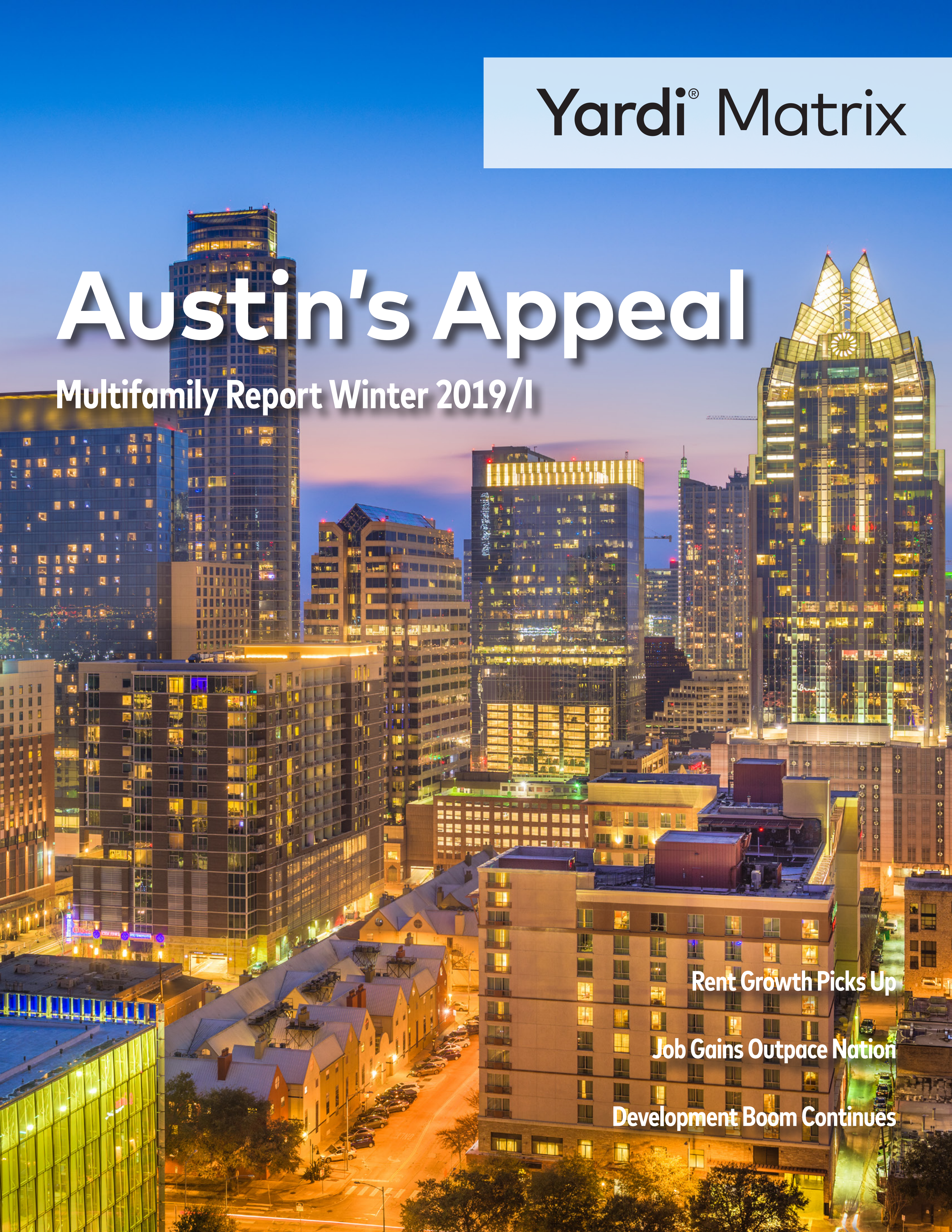
Yardi® Matrix

Austin's Appeal

Multifamily Report Winter 2019/I



Rent Growth Picks Up

Job Gains Outpace Nation

Development Boom Continues

Market Analysis

Winter 2019/I

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Demand Meets Completions

Technology companies from major U.S. hubs are attracted to Austin's lower cost of living and doing business, as well as its strong pool of highly skilled professionals. Rent growth, which had flattened around mid-year, has picked up steam again, up 3.4% year-over-year through October, to an average of $1,347. Despite substantial new deliveries, demand remains strong, boosting the occupancy rate by 70 basis points year-over-year.

Employment growth has been consistent, floating above the 3.0% mark all year long and clocking in at 3.4% year-over-year through September, well above the 2.0% national rate. Austin added 40,000 jobs in the year ending in September, with all but two sectors expanding. Tech jobs abound, as 12 of the 25 biggest employers in Austin operate in the technology sector. The metro's problematic infrastructure is up for improvement, as a $160 million bond has passed—the measure is not only meant to rebuild streets, sidewalks and the bridge over Lady Bird Lake but will also build on the expansion of the transportation sector, which added 10,100 jobs in 2018.

Nearly 9,000 units were delivered through October, with about three-quarters of them upscale. The pipeline consists of some 19,900 units underway, as further stock expansion is looming. Some $886 million in multifamily assets traded by October, with the per-unit price at $137,111.

Recent Austin Transactions

Signature 1909

City: Austin, Texas
Buyer: The Preiss Co.
Purchase Price: $55 MM
Price per Unit: $331,325

English Aire

City: Austin, Texas
Buyer: Lion Real Estate Group
Purchase Price: $43 MM
Price per Unit: $183,119

Farmhouse

City: Austin, Texas
Buyer: The Ergas Group
Purchase Price: $34 MM
Price per Unit: $144,675

Preserve Wells Branch

City: Austin, Texas
Buyer: Housing Authority of Austin
Purchase Price: $32 MM
Price per Unit: $102,727

On the cover: Photo by Sean Pavone/iStockphoto.com

Rent Trends

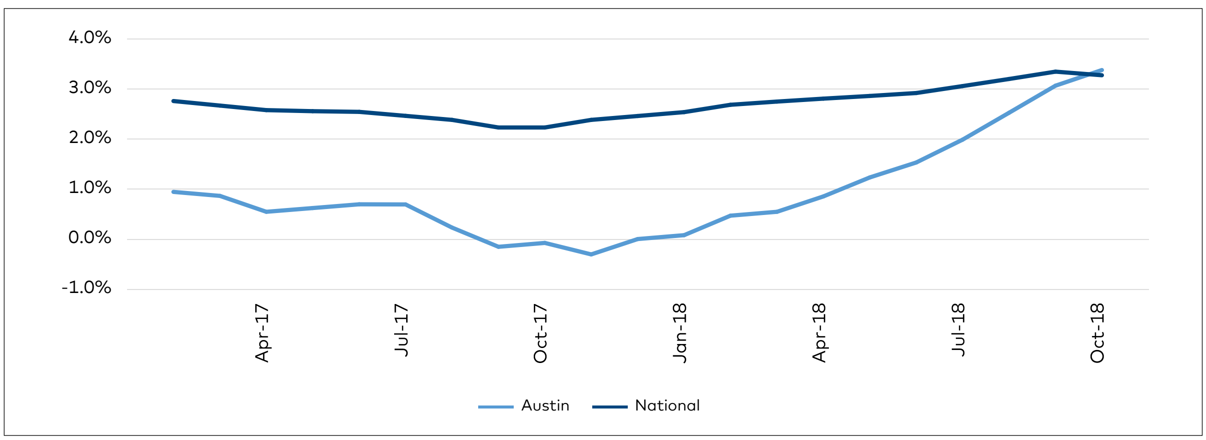
- Rents in Austin were up 3.4% year-over-year as of October, as growth has considerably picked up during the year's second half, surpassing the national growth rate by 10 basis points. The average rent climbed to $1,347, continuing to trail the national average by $73. Demand has stayed elevated, spurred on by above-trend job growth and strong in-migration. That has kept occupancy at strong levels—95.0% as of September—despite the very high rate of completions over the second half of the cycle.

- Working-class Renter-by-Necessity assets led growth, up 3.5% year-over-year through October to $1,122, while Lifestyle properties rose 3.1% to $1,470 over the same time frame. The low spread between the segments signals consistent demand across the quality spectrum.

- Average rents climbed above the $2,000 mark in two submarkets: The University of Texas, where roughly two-thirds of total stock consists of Lifestyle assets, inched up 0.4% year-over-year to $2,145, while rents in Austin's most expensive submarket—Downtown–North—rose 3.9% to $2,470.

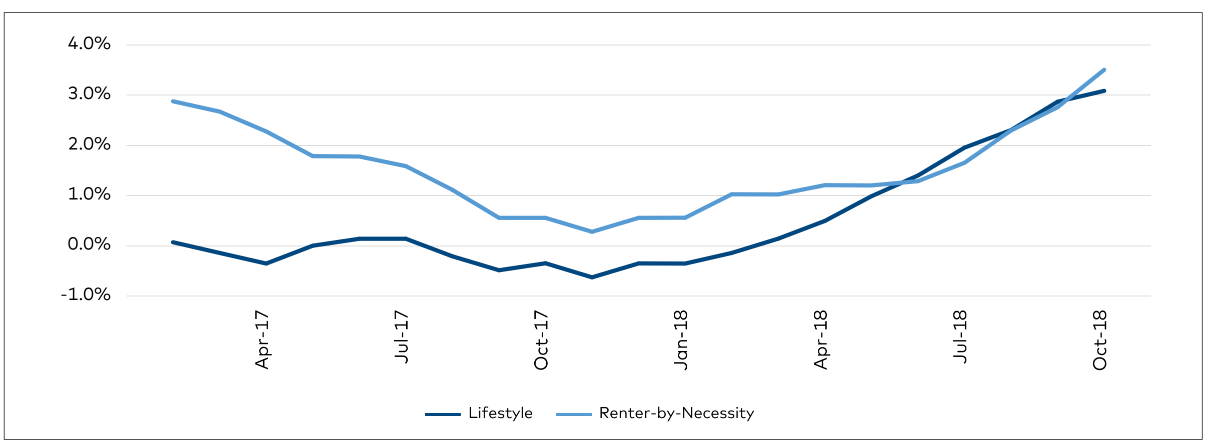
- Rents grew at the fastest rates in Berkman Drive (up 6.9% year-over-year), St. Johns Park (5.3%) and Capital Plaza (4.5%), which are all located around North Austin, where more than half of the multifamily stock consists of Renter-By-Necessity assets.

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)

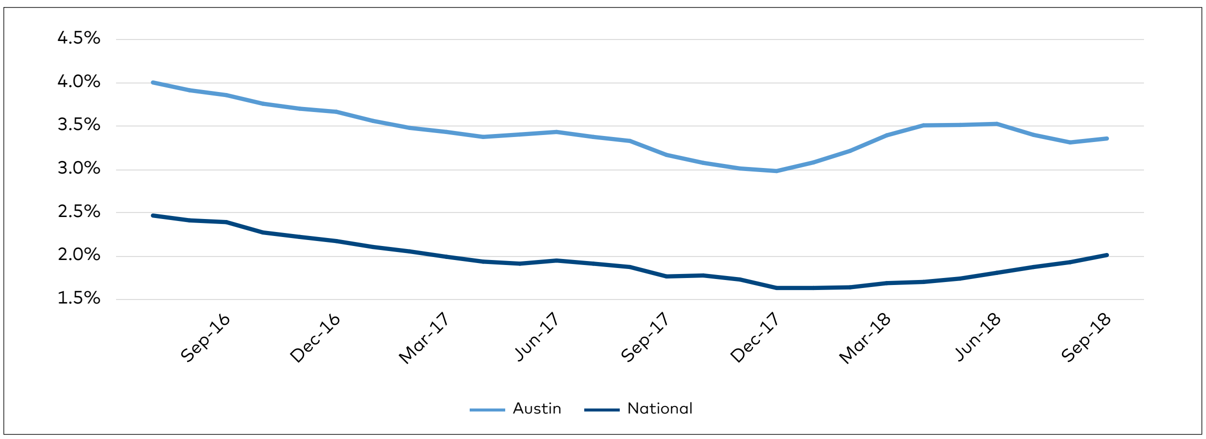


Source: YardiMatrix

Economic Snapshot

- Austin added 40,000 new jobs in the 12 months ending in September, up 3.4% year-over-year and well above the 2.0% national rate. The metro is experiencing positive employment growth rates across all industries except manufacturing and education and health services, which lost a combined 1,800 jobs.
- The best-performing sectors were professional and business services (11,200 jobs), trade, transportation and utilities (10,100 jobs), and leisure and hospitality (7,000 jobs). All three are poised for continued growth: WeWork is planning a $1 billion, 3 million-square-foot mixed-use project in the Rainey Street district, regarded as the biggest private real estate development ever planned for downtown Austin, while the metro's Bergstrom International Airport, which is on the heels of a $350 million, nine-gate expansion, is expected to gain an additional 32 gates by 2040, enabling it to handle 31 million travelers per year, compared to its current capacity of 14 million.
- The overlap between the music and technology industries in Austin has fueled a booming hospitality sector, even more so following the opening of the 1,048-key Fairmont Austin, which employs more than 700 workers. The sector has also impacted construction, with work underway at several projects as of October, including the 140-key Canopy by Hilton and the 24-story Hotel ZaZa, slated for completion in 2020 and 2019, respectively.

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	189	17.6%	11,200	6.3%
40	Trade, Transportation and Utilities	187	17.4%	10,100	5.7%
70	Leisure and Hospitality	133	12.4%	7,000	5.5%
15	Mining, Logging and Construction	69	6.4%	6,200	10.0%
80	Other Services	47	4.4%	2,700	6.1%
90	Government	179	16.7%	2,600	1.5%
55	Financial Activities	62	5.8%	1,700	2.8%
50	Information	31	2.9%	300	1.0%
30	Manufacturing	57	5.3%	-700	-1.2%
65	Education and Health Services	120	11.2%	-1,100	-0.9%

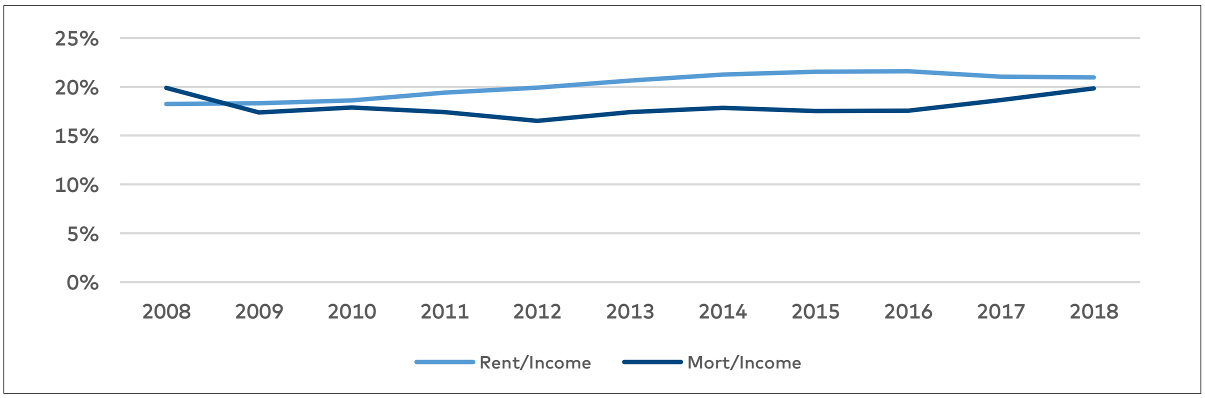
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

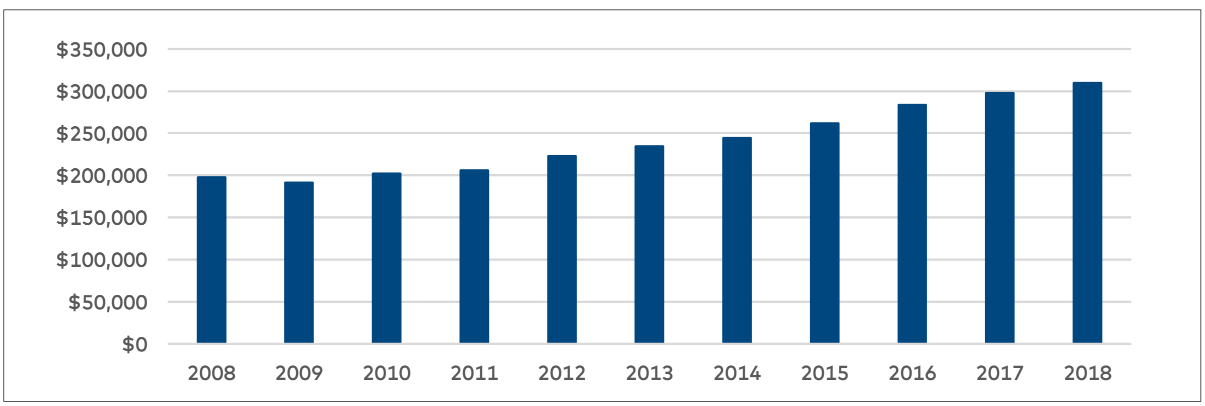
- Austin's median home price rose 4.1% to $309,921 in 2018, 57% higher than the 2008 level. Per the Real Estate Center at Texas A&M University, Austin's homeownership rate is at 56.2%, the lowest among major Texas metros. That rate will likely continue to drop slowly, as the average 30-year home mortgage rate hovers around the 5.0% mark, meaning buyers get less house for their money, further ramping up the creation of new rental households.
- The $250 million affordable housing bond has passed and is expected to help ease growing concerns of affordability. By October, five fully affordable communities were delivered in Austin, totaling 910 units.

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 high quality of life and good national exposure have expanded its population by 12.3% since 2013.
- The pace of migration is still healthy, but shifting down slightly. Austin's population rose 2.7% in 2017.

Austin vs. National Population

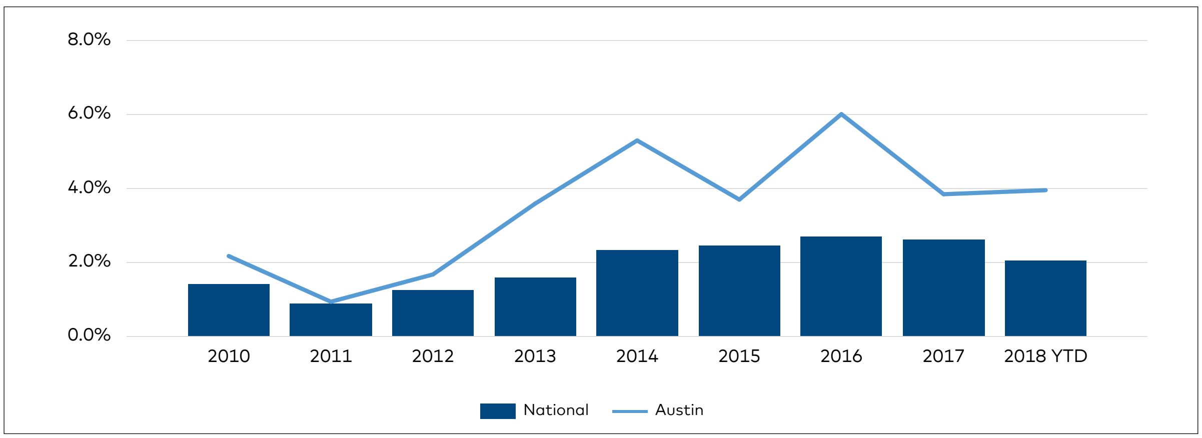
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Austin Metro	1,883,528	1,942,255	2,000,784	2,060,558	2,115,827

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

Supply

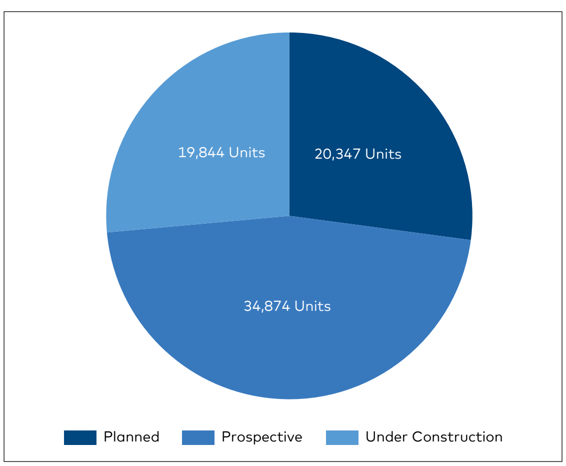
- With nearly 9,000 units delivered this year through October, Austin is having one of its strongest years for deliveries this cycle. By the year's 10th month, developers had already outpaced 2017's total stock additions. More than three-quarters of the delivered units were in Lifestyle communities.
- Some 19,900 units were underway as of October, more than 3,300 of them slated for completion by year's end, while more than 55,000 units were in the planning and permitting stages. With the supply imbalance expected to continue, we expect further burdens for renters looking for Renter-by-Necessity assets. Demand for apartments is consistent, sustaining the absorption of the robust incoming inventory. That was reflected by Austin's average occupancy rate in stabilized assets, which hit 95% in October, up 70 basis points year-over-year.
- Construction activity is high across the board, with the lion's share of development concentrated in six submarkets: San Marcos/Kyle (1,671 units), Dessau (1,633), Pershing (1,469), Cedar Park (1,429), the IBM Area (1,234) and East Central Austin (1,177). The largest project underway was Fine Line Diversified Development's 372-unit Terra, already 46% pre-leased as of November.

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



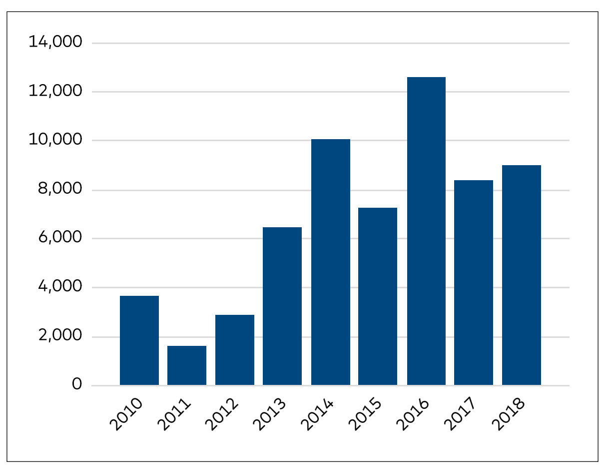
Source: YardiMatrix

Development Pipeline (as of October 2018)



Source: YardiMatrix

Austin Completions (as of October 2018)

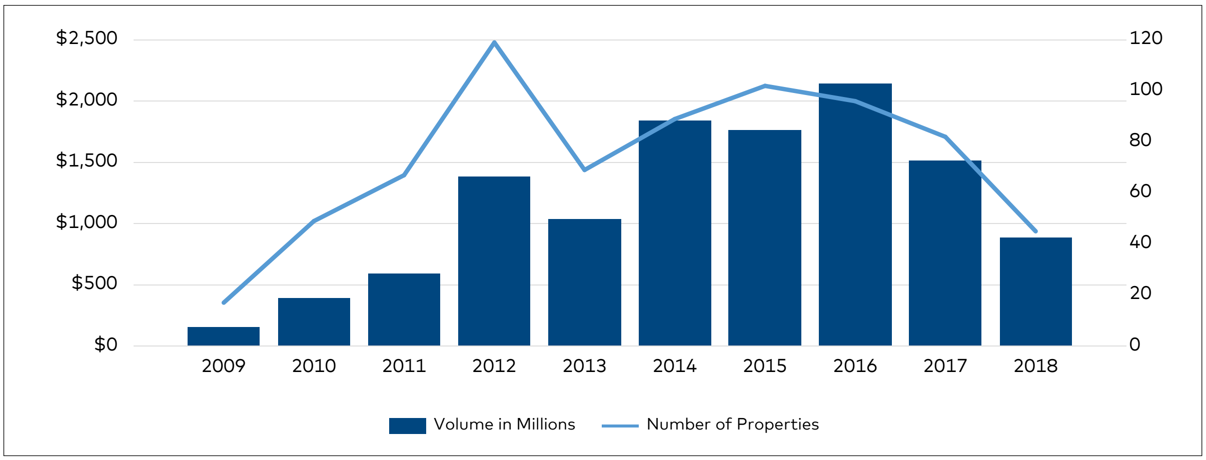


Source: YardiMatrix

Transactions

- Transaction activity softened in Austin, as some $886 million in multifamily properties changed hands in the metro through October, about $400 million short of last year's sales total through the same interval. The overall price per unit rose 3.5% to $137,111 in 2018 through October. More than half of the communities that traded were in the Renter-by-Necessity segment, at an average price per unit of $121,089, as investors targeted value-add opportunities.
- Austin assets continued to attract investors, who mostly focused on properties in East Central Austin, which led transaction activity with more than $264 million in total deals over the past 12 months. The largest recent deal was The Preiss Co.'s acquisition of Signature 1909, a partially affordable student housing project with 166 units, located in the high-priced University of Texas submarket. The asset sold for $55 million, or $331,325 per unit.

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



Source: YardiMatrix

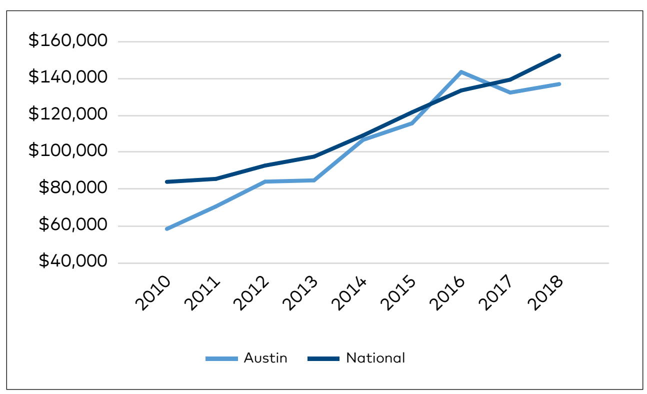
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
East Central Austin	264
San Marcos/Kyle	95
Eubank Acres–South	80
Sunset Valley	73
Oak Hill	69
Pleasant Hill–East	66
Pleasant Hill–West	64
University of Texas	55

Source: YardiMatrix

[1] From November 2017 to October 2018

Austin vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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NKF Arranges Sale Of 3 TX Assets

All three assets, totaling 905 units, are located in south Austin. Farmhouse is a core luxury community, while Estates at Southpark Meadows and Terraces at Southpark Meadows are value-add properties.

JV Continues Expansion in Austin Student Housing Market

The purchase of Signature 1909 marks The Preiss Co.'s third acquisition in a joint venture with TH Real Estate, and brings its current market presence to 3,640 beds.

Luxury Community Breaks Ground Within ShadowGlen Master Plan

The team behind the project includes architectural firm Cross Architects, civil engineering firm Kimley-Horn, general contractor Journeyman Construction, Mason Joseph Co. and BBG Inc.

Austin's Muze Reaches Construction Milestone

The team behind Parallel Co.'s 502-bed asset include architect Rhode Partners, product designer Sixthriver and general contractor Rogers-O'Brien.

Lantower Residential Expands Portfolio With Tech Ridge Development

Edgewater is located in the city's tech hub and includes 328 units, a dog spa, two pools and a recreational pond.

Leon Capital Breaks Ground in Austin

The 262-unit Society will have a heavy focus on technology, pulling inspiration from the city's reputation as a tech destination. Amenities will include creative office space and a resort-style pool.

Executive Insight

Brought to you by:

How Austin Can Set an Example in Tackling Affordability Issues

By Anca Gagiuc

Austin is among the top 10 most undersupplied metros in the country, a recent Yardi Matrix report shows. Developers struggle with a low availability and high cost of land, but despite this, multifamily demand remains consistent. The metro continues to entice residents and businesses alike, which has had a significant impact on housing affordability. According to statesman.com, one-third of Austin residents spend more than 30% of their income on housing. Dan Wilson, senior vice president of Atlantic | Pacific Cos., offers his views on the market's affordability.

Which areas of the metro are currently most affordable?

Affordability is a challenge throughout the metro. Housing tends to be more affordable the farther you are from the Central Business District.

Many residents want to reside downtown, but the cost of living often drives residents toward more affordable options in areas like Springdale and East Manor.

Quality affordable housing options that are close to downtown and other major employment centers are needed now more than ever.

What changes in the current local legislation should be made in order to encourage the construction of more affordable housing units?

Economic factors including rising interest rates and escalating construction costs have made it

increasingly difficult to develop affordable housing without financial involvement from state and/or local governments.

(The bond package) is a significant step forward, considering the last bond package that passed, in 2013, was only a $65 million issuance.

How have affordable housing projects evolved over the past five to 10 years?

Affordable garden-style communities in suburban areas are becoming less prevalent. We are starting to see a significant shift toward higher-density product types on small urban infill sites.

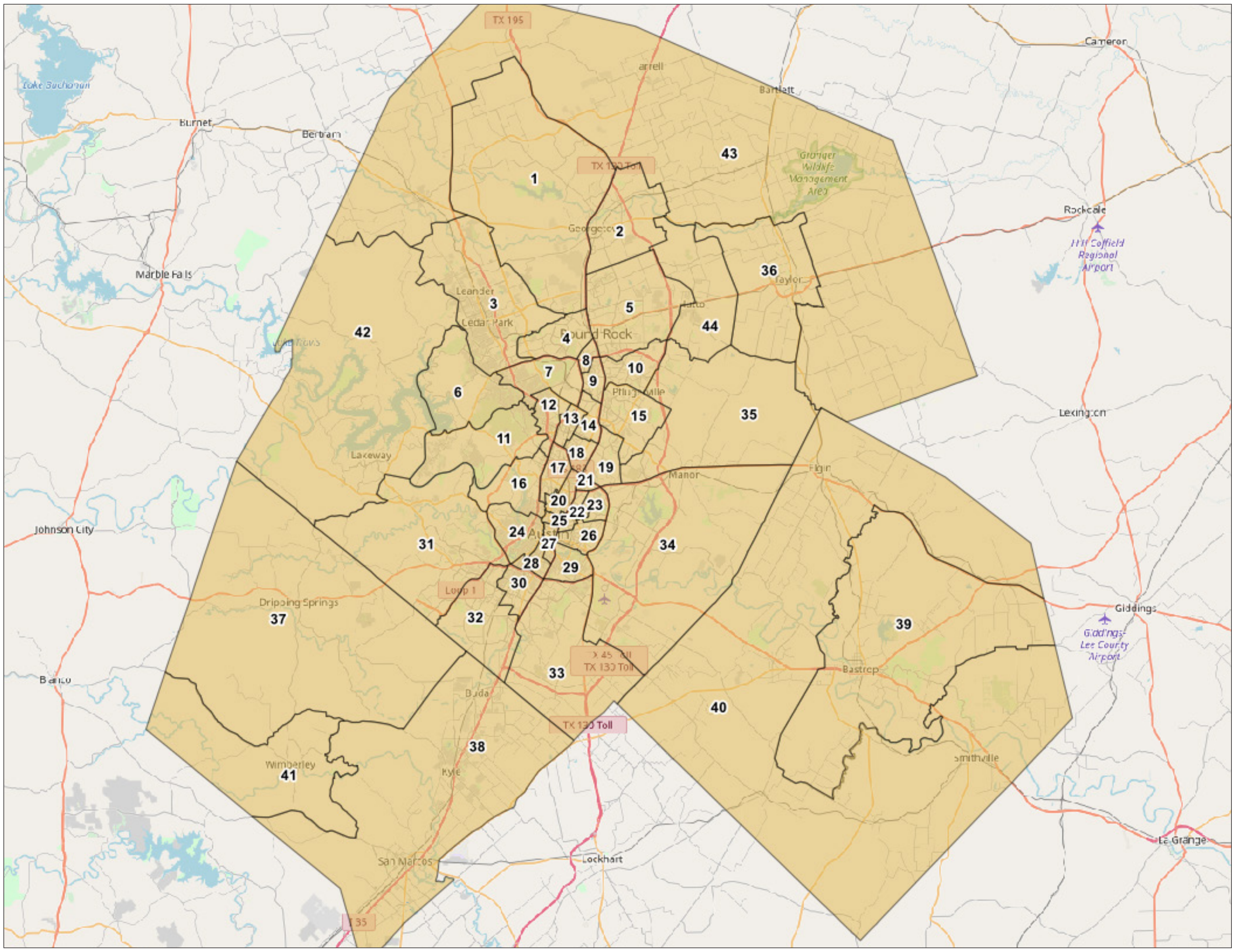
We are also seeing a trend toward smaller units in exchange for larger amenity packages and more services.

What are your thoughts on the CodeNext (Austin's updated land development code) process?

In municipalities throughout the country, we've seen that development code rewrites are one of the biggest challenges a municipality can undertake.

CodeNext was a valiant effort, which ultimately missed its mark. There are likely some valuable components from that effort, which can be salvaged for the next rewrite.

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.