Yardi® Matrix

Unfazed Austin

Multifamily Report Winter 2019/II

Development Pipeline Remains Strong

Employment Growth Sustains Demand

Transaction Activity Softens

Market Analysis
Winter 2019/II

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Construction Surge Powers Through

As one of the fastest-growing metros in the U.S., Austin showed solid multifamily fundamentals in 2018. Despite a consistent pipeline, rent growth continued to accelerate, ending 2018 at 3.6% year-over-year. Occupancy in stabilized properties rose a strong 80 basis points in the 12 months ending in November 2018, mirroring a healthy pace of absorption and showing that Austin has room for further growth.

Employment growth was diverse and above the 3.0% mark all year, reaching 3.5% year-over-year through October, well ahead of the 2.1% national rate. The metro added 40,400 jobs, with trade, transportation and utilities (12,700 jobs) leading growth. Professional and business services added 7,000 positions and is expected to continue performing well following the announcement of Apple's new $1 billion, 133-acre campus in North Austin, which is anticipated to employ 15,000 people over the next five years.

Roughly 10,500 units were delivered in 2018, with less than a quarter in the Renter-by-Necessity class and 1,234 units in fully affordable communities. The metro had nearly 19,000 units underway as of December—we expect 11,730 units to be delivered in 2019. Considering Austin's strong fundamentals and steady pace of deliveries, Yardi Matrix anticipates its rents to rise 2.0% this year.

Recent Austin Transactions

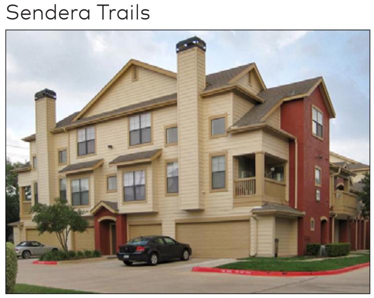
Signature 1909

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

Paradise Oaks

City: Austin, Texas
Buyer: Fairfield Residential
Purchase Price: $32 MM
Price per Unit: $128,022

Sendera Trails



City: Austin, Texas
Buyer: AEW Capital Management
Purchase Price: $22 MM
Price per Unit: $114,757

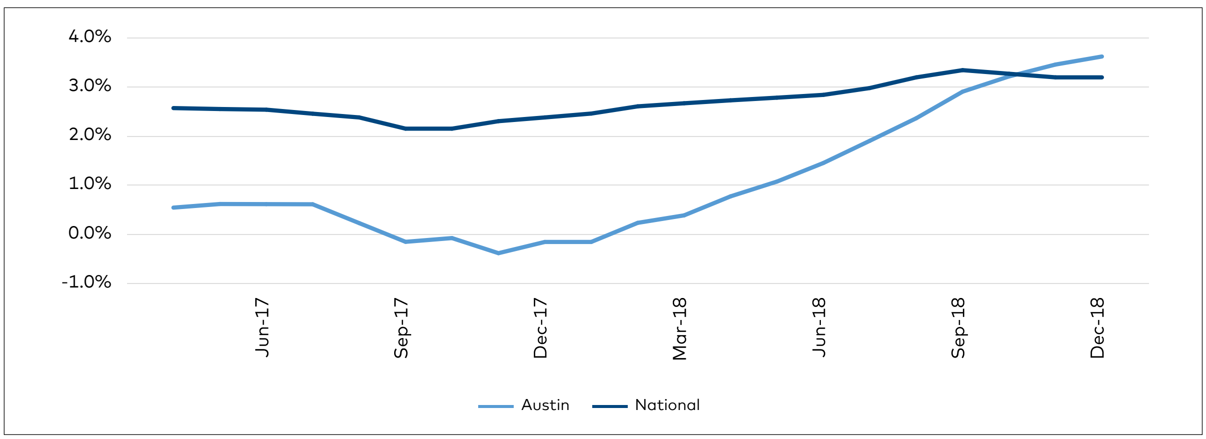
Bridge at Terracina

City: Austin, Texas
Buyer: Housing Authority of Austin
Purchase Price: $20 MM
Price per Unit: $117,671

Rent Trends

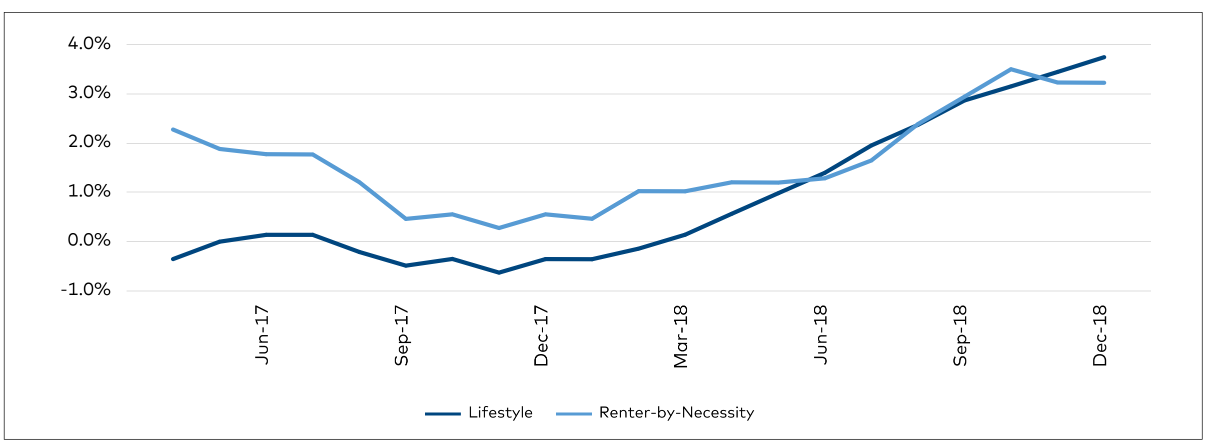
- Austin rent growth accelerated steadily last year, ending 2018 at 3.6% year-over-year. The average rate reached $1,344, $75 below the U.S. figure. Despite robust deliveries, rent growth in the metro surpassed the 3.2% national rate, with demand sustained by steady in-migration and a burgeoning job market. Surging multifamily demand in the second half of the year pushed up the occupancy rate in stabilized properties to 94.9% as of November, up a strong 80 basis points over 12 months.
- Rent gains were led by the Lifestyle asset class, up 3.7% in 2018, to $1,467. Meanwhile, rates for working-class Renter-by-Necessity assets were up 3.2%, to $1,119.
- Average rents stayed above the $2,000 mark in two submarkets: Rates in Downtown–North, the metro's most expensive area, rose a solid 4.6%, to $2,518. Meanwhile, rents in the University of Texas submarket inched up 0.3%, to $2,143. Berkman Drive (average rent up 8.1% to $1,041), distant Bastrop (7.9% to $1,147) and West End (6.5% to $1,865) registered some of the strongest rent hikes of 2018.
- Taking into account the metro's expanding economy and consistent pipeline, both supply and demand are bound to remain strong for the foreseeable future. Yardi Matrix expects Austin rents to rise 2.0% in 2019.

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

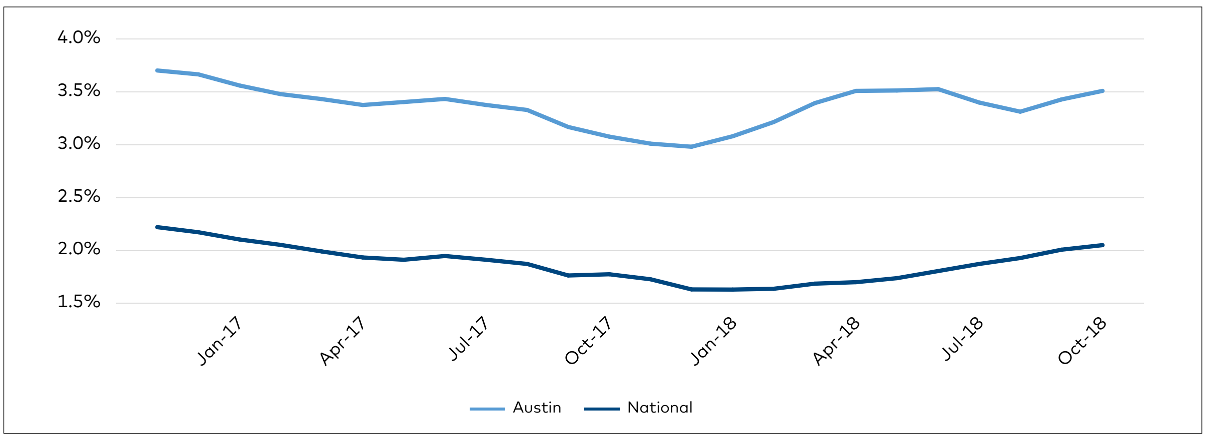
Economic Snapshot

- Austin added 40,400 jobs in the 12 months ending in October for a 3.5% expansion, outperforming the 2.1% national average. The unemployment rate dropped to 2.7% as of October, with a consistent flux of businesses and people relocating to Austin—especially from California—thanks to the area's relatively affordable cost of living, deep talent pool, high quality of life and business-friendly environment.

- Austin's strong demographic expansion translated into job growth across the board, led by trade, transportation and utilities, which added 12,700 positions. Professional and business services, the metro's big driver in terms of high-wage jobs, expanded by 7,000 jobs and is poised for further growth due to Apple's recently announced new campus, which is expected to add 15,000 employees over the next five years. At 6,200 people, Austin already represents the largest population of Apple employees outside of Cupertino, Calif. The upcoming campus is set to make Apple the largest private employer in the metro, with the new slate of jobs also including middle-skilled positions.

- Apple's $1 billion, 133-acre facility is seen as the strongest development driver in North Austin since The Domain. After being a seller's market for 10 years, the area brings good news to landlords and investors, as property values are expected to rise sharply.

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	%
40	Trade, Transportation and Utilities	191	17.6%	12,700	7.1%
60	Professional and Business Services	189	17.5%	7,000	3.9%
70	Leisure and Hospitality	134	12.4%	6,800	5.3%
15	Mining, Logging and Construction	67	6.2%	5,500	8.9%
80	Other Services	48	4.4%	2,600	5.8%
90	Government	181	16.7%	2,600	1.5%
65	Education and Health Services	124	11.4%	2,000	1.6%
55	Financial Activities	62	5.7%	800	1.3%
50	Information	31	2.9%	400	1.3%
30	Manufacturing	57	5.3%	-	0.0%

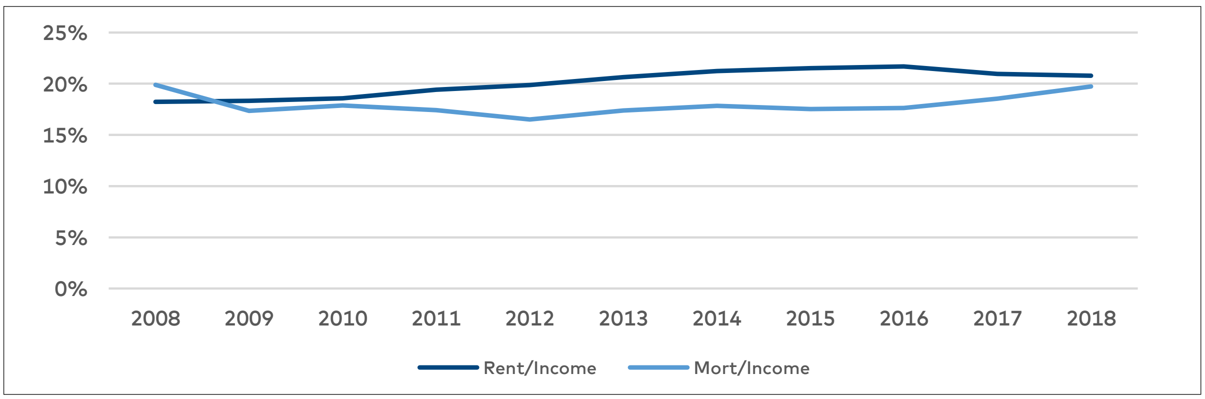
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

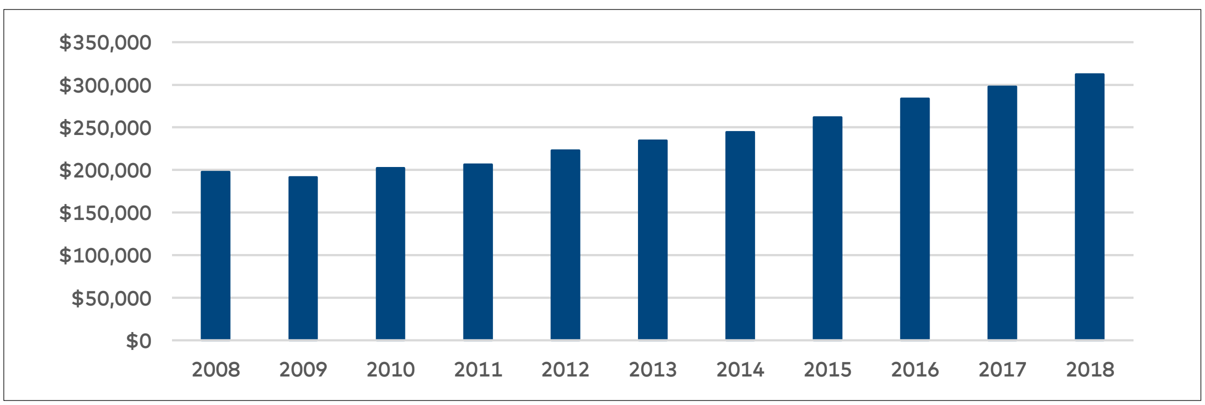
- The median home value in Austin surpassed the $300,000 mark in 2018, up 4.8% over the previous year to $312,027 and a solid 63% above the 2009 value, when the market bottomed out. With the demographic expansion continuing at a rapid pace, the metro's core workforce is facing rising affordability issues. The average rent in the metro accounted for 21% of the area's median income for the second consecutive year, while owning rose to 20% in 2018.
- Last year, 1,234 units in six fully affordable communities were delivered in the metro. In early 2019, an additional 2,300 affordable units were underway, with 1,639 slated for completion by year-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's population expanded by 12.3% between 2013 and 2017, heavily surpassing the 3.0% U.S. figure.
- Austin grew by more than 55,000 residents in 2017 for a 2.7% expansion, nearly four times the national rate.

Austin vs. National Population

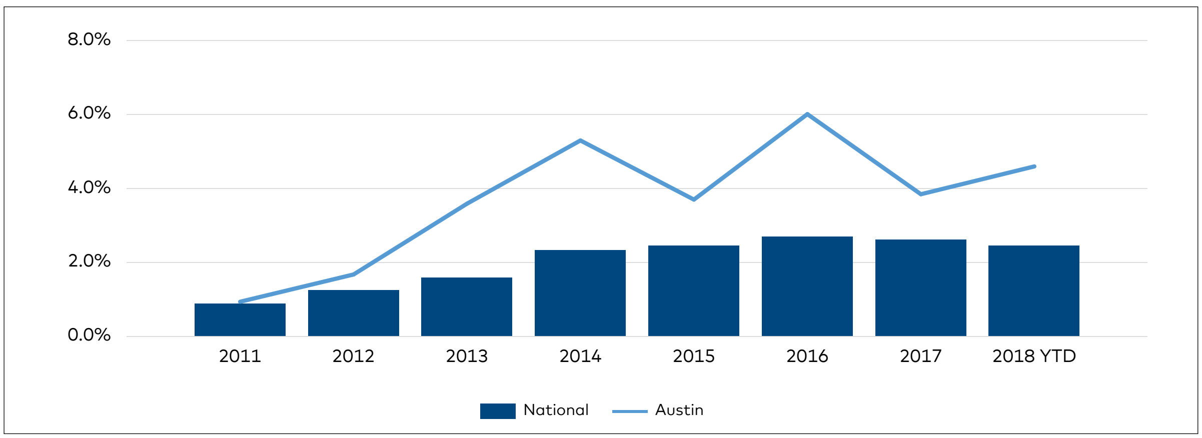
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Austin Metro	1,883,528	1,942,255	2,000,784	2,060,558	2,115,827

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

Supply

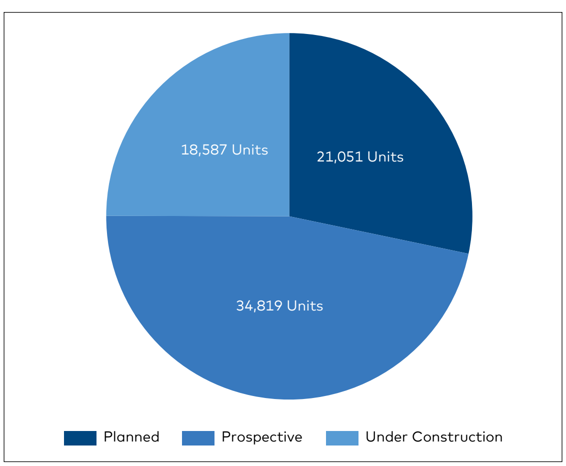
- Some 10,500 units came online in Austin in 2018. This represents 4.6% of total stock, nearly double the 2.5% national rate. Of the units delivered last year, less than a quarter were in Renter-by-Necessity properties and 1,234 units were in fully affordable assets.
- Nearly 19,000 units were underway as of December, with more than 11,730 slated for delivery by the end of 2019. This would mark Austin's second-strongest year for deliveries during this cycle, only behind the 12,599 apartments that came online in 2016. The metro also had nearly 56,000 units in the planning and permitting stages as of December.
- Construction activity is strong across the map, with six submarkets each having more than 1,000 units under construction: Dessau (1,687 units), San Marcos/Kyle (1,667 units), Pershing (1,469 units), East Central Austin (1,279 units), the IBM Area (1,234 units) and Cedar Park (1,189 units).
- The largest development underway as of December was Plaza Saltillo in Pershing, a joint-ownership, 800-unit mixed-use property slated for completion this spring.

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



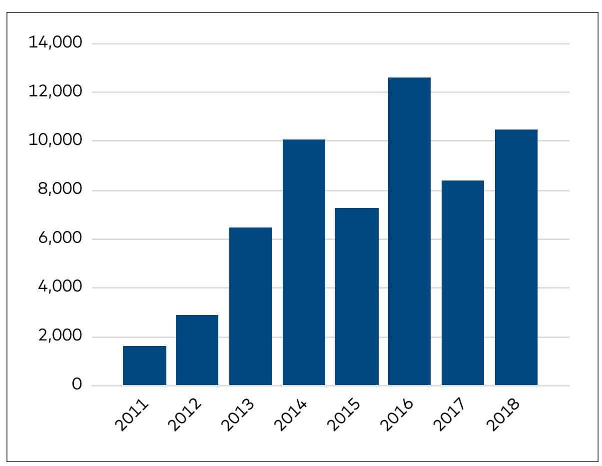
Source: YardiMatrix

Development Pipeline (as of December 2018)



Source: YardiMatrix

Austin Completions (as of December 2018)

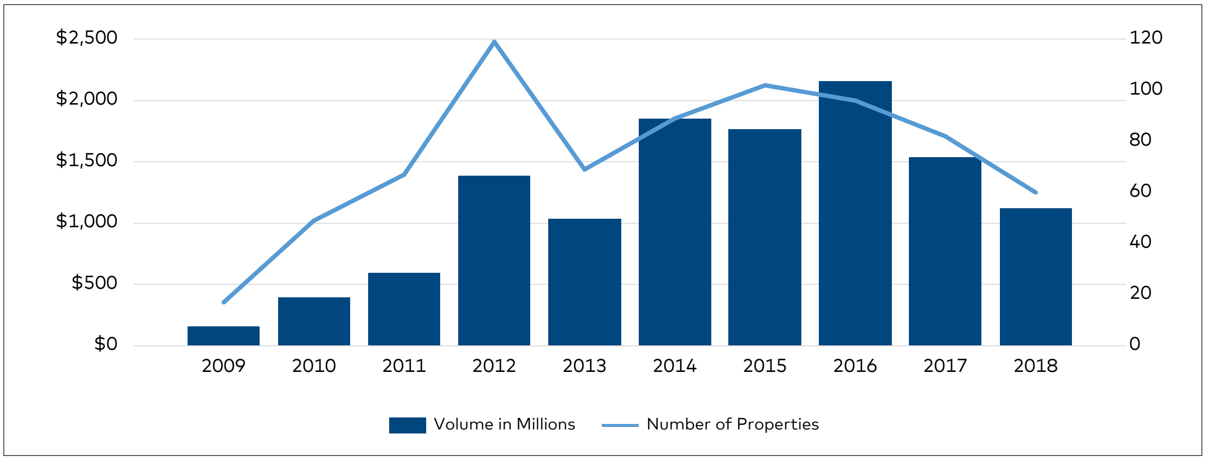


Source: YardiMatrix

Transactions

- Transaction activity softened in 2018, with roughly $1.1 billion in multifamily assets changing hands, about $400 million short of 2017's total volume. Private investors dominated the market, with a focus on downtown Austin and submarkets along Interstate 35.
- The overall price per unit rose 1.8% to $134,115 in 2018, even though more than half of the traded assets were in the Renter-by-Necessity segment, at an average per-unit price of $120,188. Lifestyle assets sold for an average $152,954 per unit.
- East Central Austin was the metro's most sought-after submarket in 2018, with more than $250 million in multifamily assets changing hands. Sunset Valley ($176 million) and San Marcos/Kyle ($138 million) rounded out the top three.

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



Source: YardiMatrix

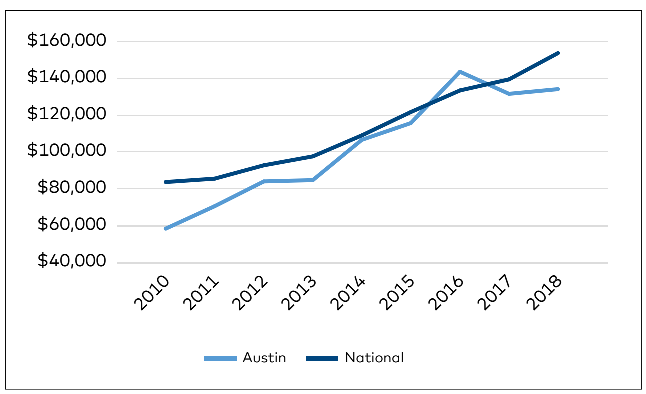
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
East Central Austin	253
Sunset Valley	176
San Marcos/Kyle	138
Oak Hill	69
Eubank Acres–South	65
University of Texas	55
Pflugerville	52
Wells Branch	50

Source: YardiMatrix

[1] From January 2018 to December 2018

Austin vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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Cardone Capital Buys, Rebrands Luxury Property

The 10X Living at Grandview community, which was previously known as Gables Grandview, comprises 34 buildings totaling 458 units.

Presidium Launches Major Mixed-Use District in Austin

The garden-style community is the first of the Pecan District's 10 phases. The 45-acre development is anticipated to be fully complete in 2028.

Transwestern Sells Austin Community

Completed in 2016, the 346-unit property is at the epicenter of new development activity in the city's popular East Sixth district.

Bellwether Enterprise Arranges $24M Acquisition Loan

The firm worked on behalf of the city's housing authority to facilitate the 12-year Fannie Mae loan for the 308-unit, 14-building property.

Wildhorn Capital Enters Austin Market

The locally based multifamily investment company completed its first transaction in the city by acquiring the 284-unit Reserve at Walnut Creek.

Executive Insight

Brought to you by:

How Austin Tackles Affordability Issues

By Anca Gagiuc

Austin, Texas, 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 is still consistent. The metro continues to entice residents and businesses alike, which has had a significant impact on housing affordability.

Atlantic | Pacific Cos. Senior Vice President Dan Wilson weighs in on Austin's affordability crisis and the new generation of affordable projects in the market.

Which areas of the metro are currently most affordable?

Affordability is a challenge throughout the metro. Housing tends to be more affordable the further 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 should be made in the current local legislation 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 hous-

ing 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.

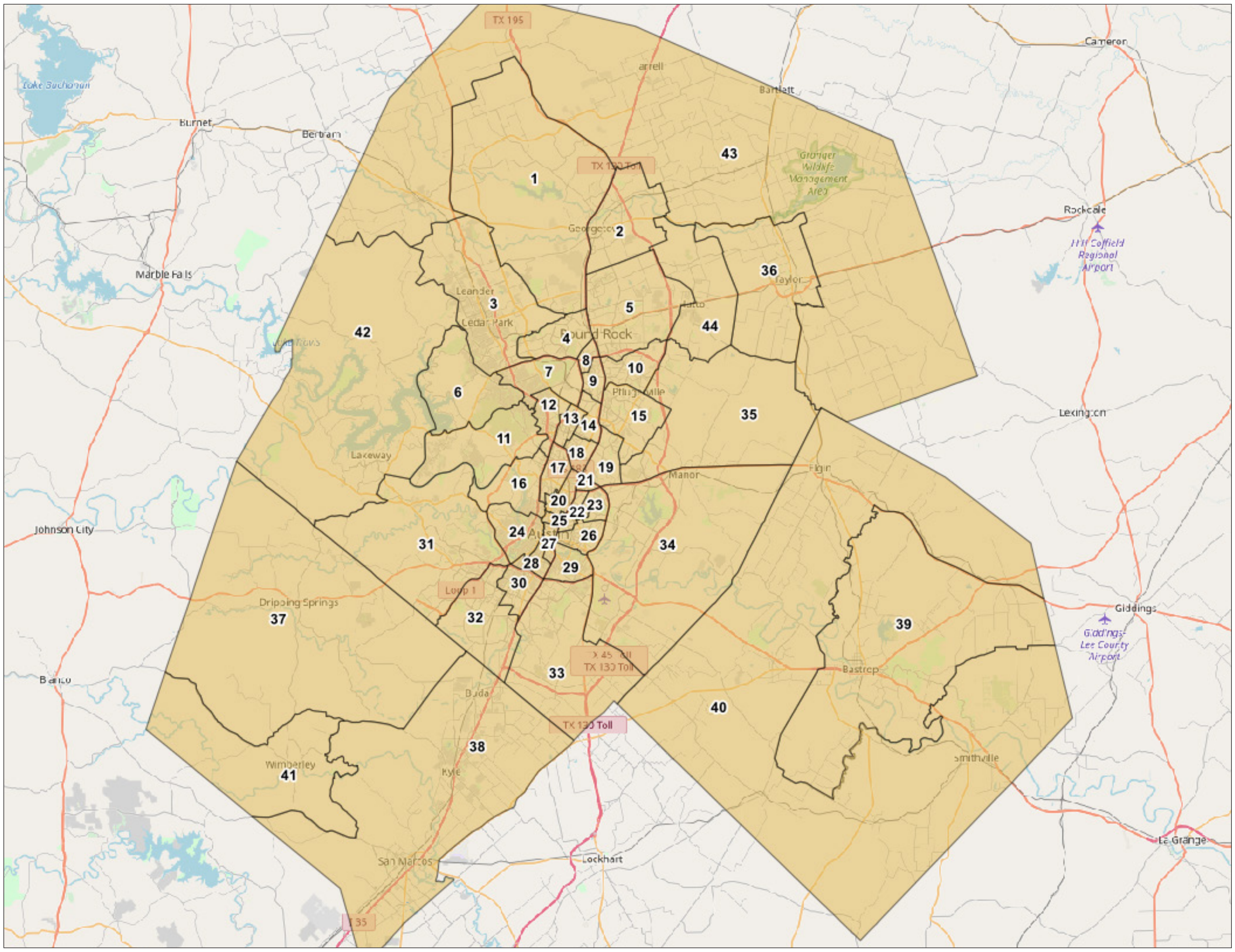
We are starting to see a significant shift toward higher-density product types on small urban infill sites. We are also seeing a trend toward smaller units in exchange for larger amenity packages and more services.

What are your thoughts on the CodeNext 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 that ultimately missed its mark. There are likely some valuable components from that effort that 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.