Yardi® Matrix

Austin's Unfazed Growth

Multifamily Report Spring 2019

Demand Propels Rent Growth

Construction Surge Continues

Job Growth Outpaces Nation

Market Analysis

Spring 2019

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Solid Economy Draws Long-Term Investors

Austin's multifamily market had another strong year in 2018, with rent growth extending beyond expectations. Despite robust deliveries, rents rose another 4.5% year-over-year through February, to $1,353. Developers have had a hard time keeping up with demand, reflected in the occupancy rate in stabilized properties, which actually rose 60 basis points year-over-year through January.

Employment growth occurred across all sectors, with Austin adding 36,800 jobs in 2018, up 3.5% year-over-year. Trade, transportation and utilities led growth, having generated 11,200 jobs, while the professional and business services sector added 6,100 jobs and is poised to maintain its evolution as technology companies have announced expansions in the metro. Among them is Apple's $1 billion, 133-acre development that's slated to house 15,000 employees once fully operational, as well as WeWork's rumored $1 billion mixed-use development that's likely to encompass 3 million square feet of office, residential, hotel, shops and restaurant space.

Nearly 11,000 units came online in 2018, favoring the Lifestyle segment. More than 20,500 units, with most targeting the same upscale segment, were underway as of February. Last year's sales volume saw a 13.3% drop to $1.3 billion, for an average per-unit price of $131,555.

Recent Austin Transactions

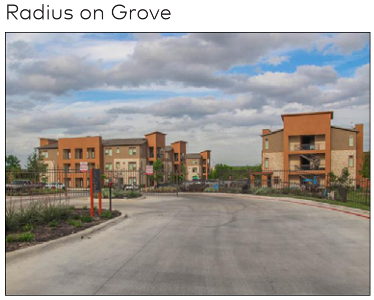
10X Living at Grandview

City: Austin, Texas
Buyer: Cardone Enterprises
Purchase Price: $81 MM
Price per Unit: $176,716

Bartz Ranch

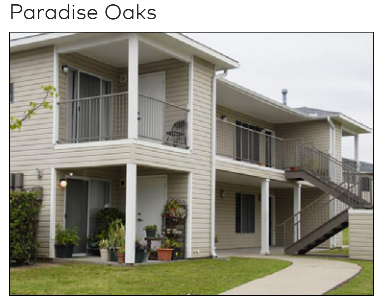
City: Round Rock, Texas
Buyer: FSC Realty
Purchase Price: $41 MM
Price per Unit: $137,649

Radius on Grove



City: Austin, Texas
Buyer: Hilltop Residential
Purchase Price: $27 MM
Price per Unit: $171,222

Paradise Oaks

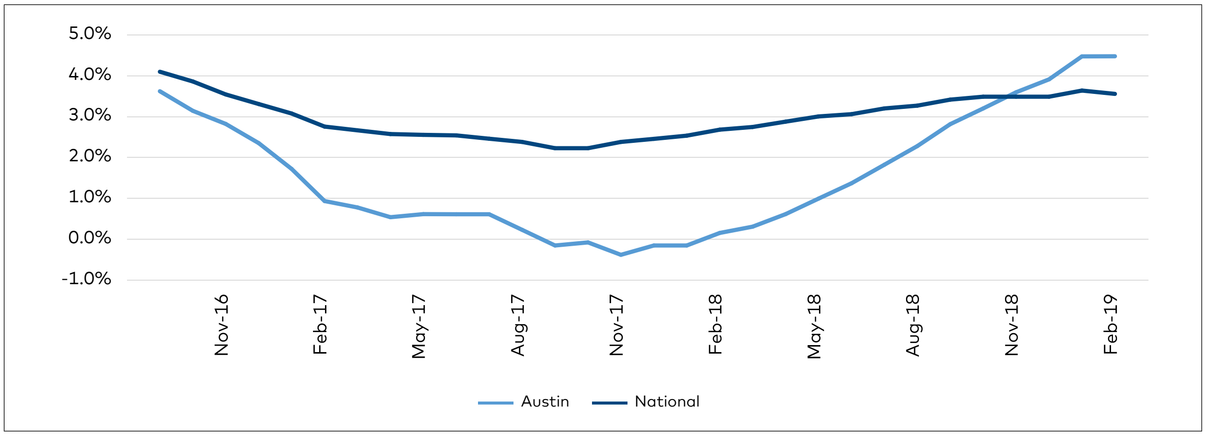


City: Austin, Texas
Buyer: Fairfield Residential
Purchase Price: $32 MM
Price per Unit: $128,022

Rent Trends

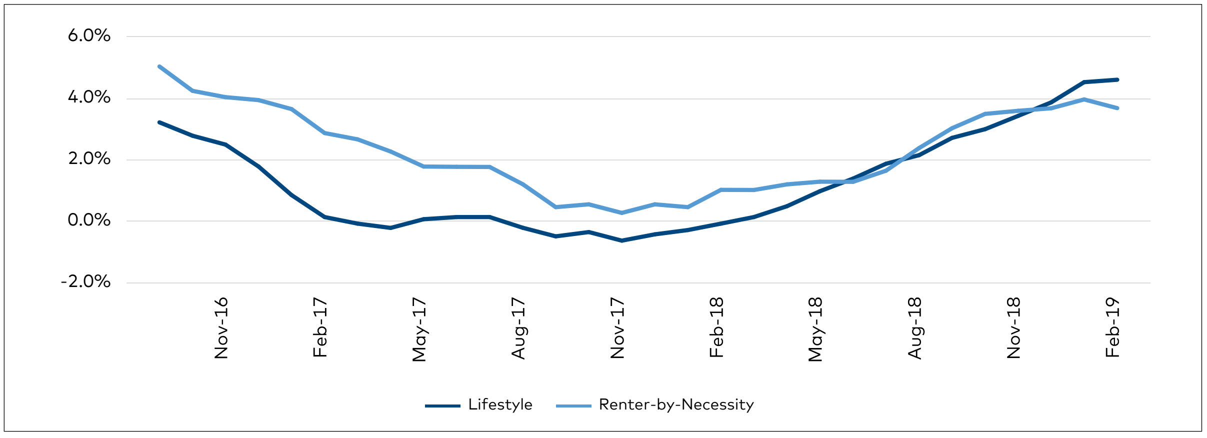
- Rents in Austin continued to climb in 2019, up 4.5% year-over-year through February to $1,353, $73 below the U.S. figure. The consistent rent growth that marks the start of 2019 is dramatically different from last year's performance, when February rents were registering contractions. Demand for apartments remained elevated despite robust deliveries, which is also reflected in the occupancy rate in stabilized properties—94.5% as of January, up by 60 basis points year-over-year.
- Rent gains continued to be led by the Lifestyle asset class, up 4.6% year-over-year through February to $1,476. Renter-by-Necessity assets rose 3.7% to $1,126 over the same period.
- Of all submarkets, only Elgin contracted by 1.8%—the average rent there accounted for $1,360, $25 less than the prior year. The metro's most expensive submarkets remained Downtown–North, up 4.3% to $2,529, and University of Texas, up 2.8% to $2,267.
- Healthy demographics coupled with sustained employment and a robust rental pipeline will likely maintain the supply and demand in relative balance this year. 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)

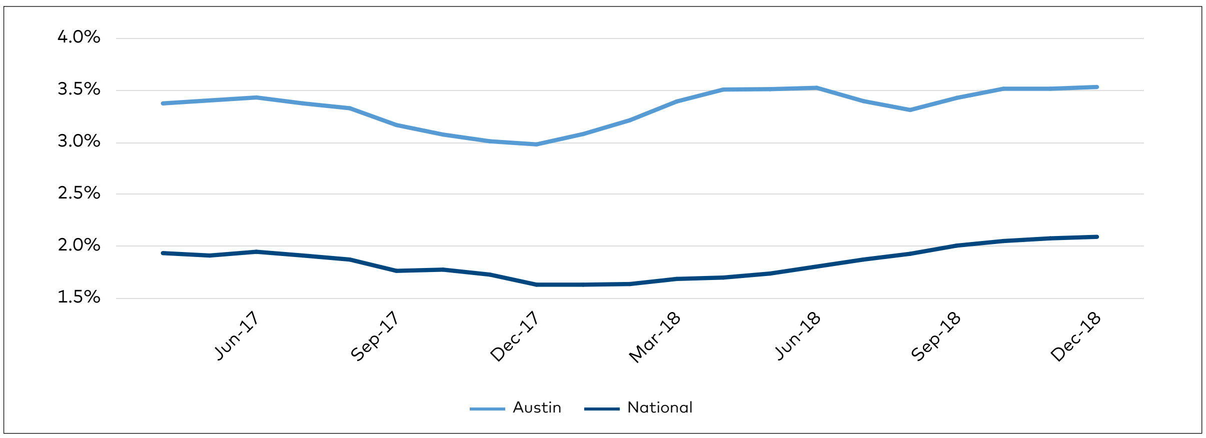


Source: YardiMatrix

Economic Snapshot

- Austin added 36,800 jobs in 2018 for a 3.5% expansion, significantly outpacing the 2.1% national rate. The unemployment rate remained at 2.7% as of November, supported by the metro's well-performing economy. The market saw positive employment growth rates across all industries, and despite the tightening job market and skyrocketing housing values, it is on track to sustain its strong economy.
- The best-performing sectors were trade, transportation and utilities (11,200 jobs added) and professional and business services (6,100 jobs). Last year, nearly 16 million passengers went through Austin-Bergstrom International Airport, a record-breaking year. Furthermore, 11 carriers announced or started 42 new routes at the airport in 2018, while the airport's nine-gate expansion became operational in February, increasing the airport's size by nearly 175,000 square feet.
- The professional and business services sector is thriving, and given recent company expansion announcements, will continue to do so. These include Apple's $1 billion, 133-acre development meant to eventually house 15,000 employees, as well as WeWork's rumored $1 billion mixed-use development that's said to encompass 3 million square feet of office, residential, hotel, shop and restaurant space. Construction rounds out the top three, with the addition of 5,000 new positions.

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	196	18.0%	11,200	6.1%
60	Professional and Business Services	189	17.3%	6,100	3.3%
15	Mining, Logging and Construction	67	6.1%	5,000	8.1%
70	Leisure and Hospitality	134	12.3%	3,700	2.9%
65	Education and Health Services	125	11.5%	3,500	2.9%
90	Government	181	16.6%	2,900	1.6%
80	Other Services	47	4.3%	2,000	4.4%
55	Financial Activities	62	5.7%	1,400	2.3%
30	Manufacturing	58	5.3%	700	1.2%
50	Information	31	2.8%	300	1.0%

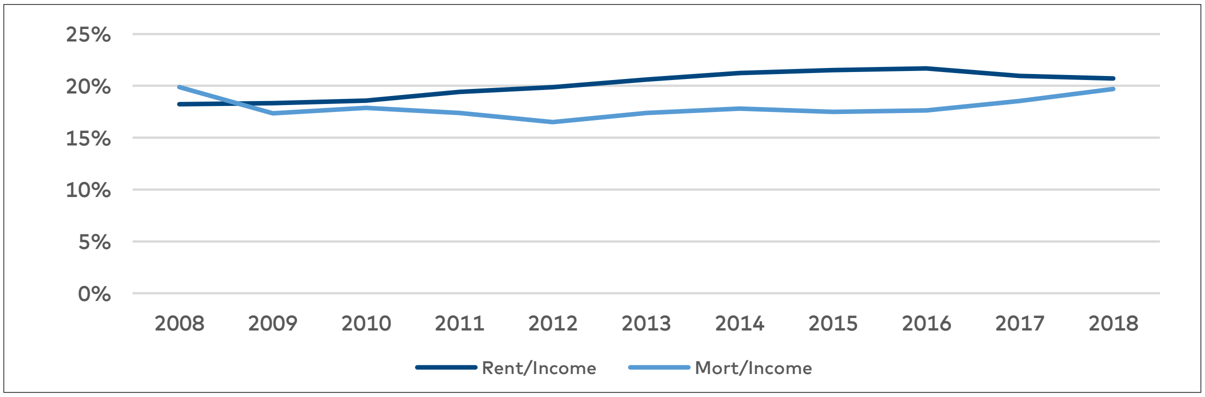
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

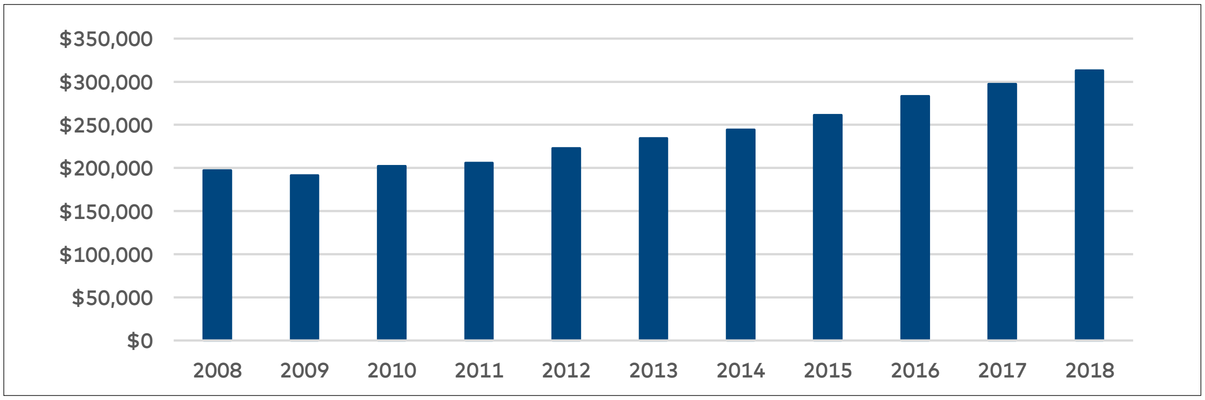
- The median home price rose 8% in 2018 to $312,983, 58% higher than it was a decade ago. Austin's continued growth has brought some usual challenges for the housing industry—continued escalation of rental costs is outpacing wage growth, in turn pressuring housing affordability. This has reached such an extent that it now affects a larger swath of the population than ever before. Owning and renting are almost on par, accounting for 20% and 21% of the area's median income.
- Last year, 1,342 units in fully affordable communities were delivered in Austin. The affordable housing pipeline has more than 3,099 units underway, with 2,473 slated for completion this year.

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 is one of the fastest-growing metros in the country, with a population increase of 2.7% in 2017.
- The metro area added 55,000 residents in 2017, and has 230,000 more than it did in 2013.

Austin vs. National Population

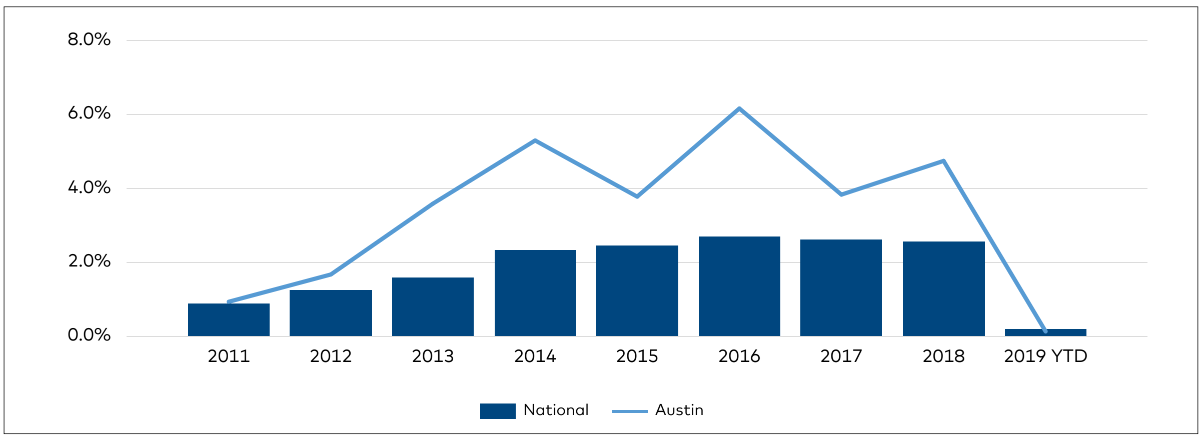
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Austin Metro	1,883,528	1,942,255	2,000,784	2,060,558	2,115,827

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

Supply

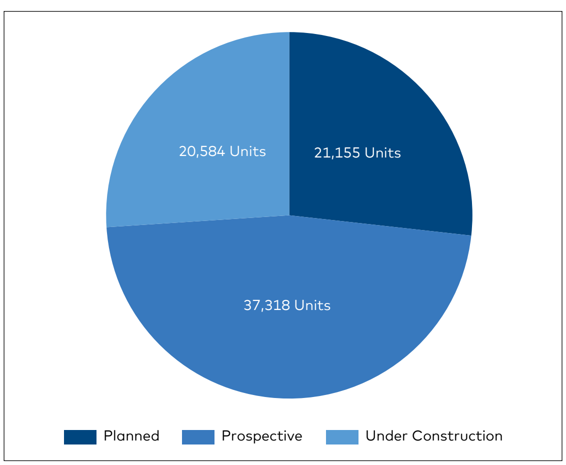
- Developers added 10,892 units in 2018, with the majority in the Lifestyle segment. The figure represented 4.8% of total stock, almost double the 2.6% national average. Developers are struggling to keep up with rising demand, amid accelerated economic development.
- Construction activity is high across the map: 20,584 units, most of them in the Lifestyle segment, were underway as of February, with 11,037 slated for delivery by year's end. As of February, another 58,500 units were in the planning and permitting stages.
- About half of the units under construction are concentrated in just six submarkets: Dessau (2,165 units), East Central Austin (1,921), Cedar Park (1,792), San Marcos/Kyle (1,667), Pershing (1,555) and the IBM Area (1,234).
- The largest project underway is the 800-unit Residences at Saltillo in Pershing, within the mixed-use Plaza Saltillo development owned by Endeavor Real Estate Group, Columbus Realty Partners and DMA Properties. The asset includes 110,000 square feet of retail and 140,000 square feet of office space.

Austin vs. National Completions as a Percentage of Total Stock (as of February 2019)



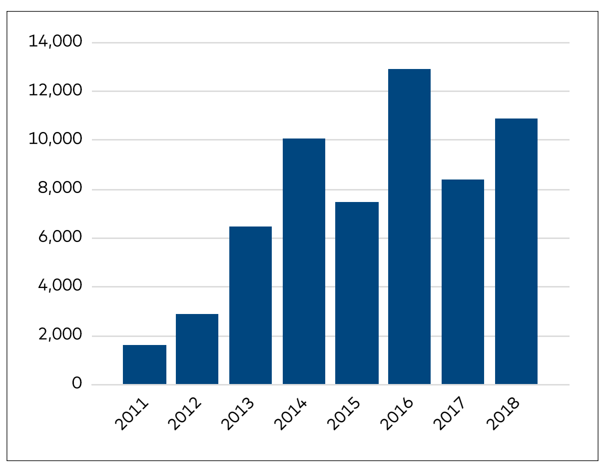
Source: YardiMatrix

Development Pipeline (as of February 2019)



Source: YardiMatrix

Austin Completions (as of February 2019)

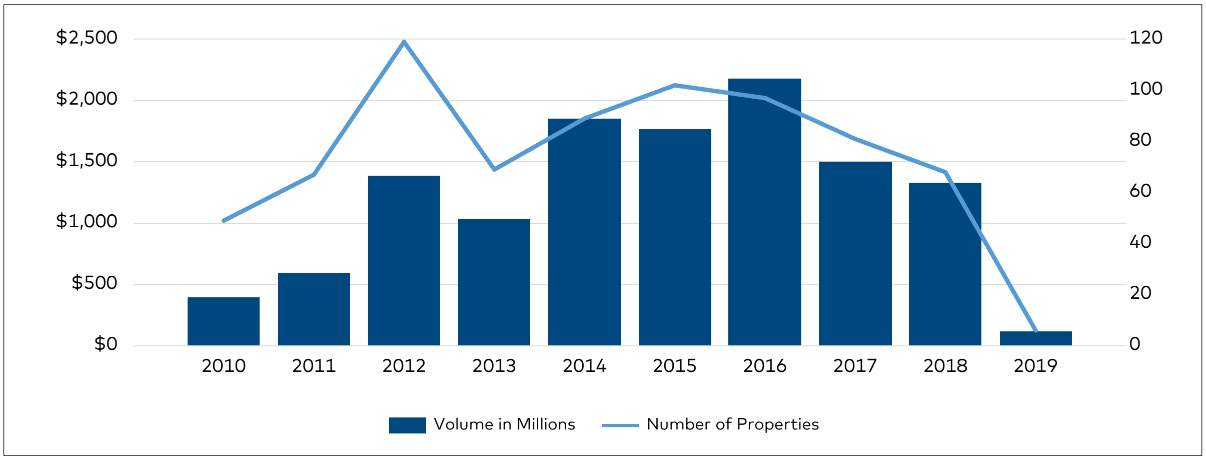


Source: YardiMatrix

Transactions

- The year was off to a good start, as six deals totaling $113 million were completed in Austin. In 2018, total sales volume reached $1.3 billion in multifamily properties, 13% below 2017's total investment figure. Of the 68 properties that traded in 2018, the share of RBN and Lifestyle assets was balanced, slightly favoring value-add plays.
- In 2019, per-unit prices dropped marginally, to $152,746, still trailing the $154,305 national average. Most assets that traded this year were in the Lifestyle segment.
- The three most active submarkets had a combined confirmed sales volume of $422 million in 2018: East Central Austin ($182 million), San Marcos/Kyle ($133 million) and Sunset Valley ($107 million).

Austin Sales Volume and Number of Properties Sold (as of February 2019)



Source: YardiMatrix

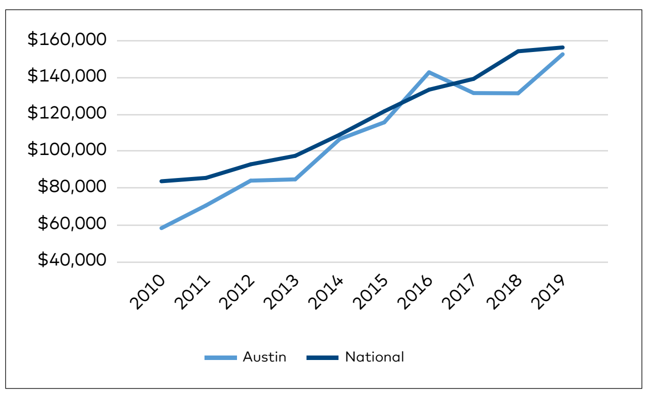
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
East Central Austin	182
San Marcos/Kyle	133
Sunset Valley	107
Pleasant Hill–East	96
St. Edwards Park	81
Far West Blvd.	73
Round Rock–East	71
Oak Hill	69

Source: YardiMatrix

[1] From March 2018 to February 2019

Austin vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Mixed-Use Tower Breaks Ground In Rainey Street District

The 30-story development, anticipated to open in the first quarter of 2021, will be the first in the area to combine retail, office and residential uses in a single building.

Stillwater Capital To Add 2 New Communities

The company is developing a 259-unit property in the suburb of Leander, as well as a 222-unit project in the Riverside neighborhood, within Austin's designated Opportunity Zone.

Nelson Partners Pays $100M for Student Housing Asset

Located near the University of Texas, the 18-story Skyloft is fully occupied and is already 77 percent leased for the 2019-2020 academic year.

Mixed-Income Development Lands $61M Financing

Mission Trail at El Camino Real in San Marcos is scheduled to break ground in the next few months, with pre-leasing anticipated to begin this fall.

Luxury Community Breaks Ground At Round Rock Premium Outlets

Parkside at Round Rock, a Simon asset, will comprise 433 units anticipated to open in early 2020 just outside of Austin, Texas.

JV Acquires 332-Unit Luxury Community In Northwest Austin

Barker Pacific Group and Pacific Real Estate Partners joined forces to acquire the 332-unit Muir Lake Apartments, marking the partnership's fifth multifamily investment in Central Texas.

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MULTI-HOUSING NEWS

Executive Q&A: Blazing a Trail in Sunbelt Multifamily

By Keith Loria

In 2006, Steven Shores and Marc Pollack formed Pollack Shores Real Estate Group, an Atlanta-based firm investing in multifamily communities across the Southeast. Over the past 13 years, the company has amassed a portfolio of more than $1.6 billion in assets throughout the Sunbelt, including Austin. Pollack Shores also owns and operates Matrix Residential, a property management firm (not affiliated with Yardi Matrix). Pollack Shores CEO Steven Shores discusses development and value-add investing in Southeast and Southwest markets that have economic promise but no new product.

What is the company's strategy for development and investment in 2019?

Our strategy on the development side will continue to focus on value development in high-growth suburban areas that have favorable demographics and proximity to walkable, mixed-use environments. We are going into areas that haven't had new multifamily product in a while and trying to be the first movers into those locations. The other strategy entails building more cost-effective units in emerging neighborhoods and cities.

Besides the Atlanta area, where else is the strategy coming into play?

We're doing this in other cities, such as Charleston, S.C.; Charlotte, N.C.; Denver; and Dallas.

What makes a location a strong one? What do you look for and when do you know it's time to expand?

It's the age-old adage of wanting to be in the middle of the adjacencies of where people work and spend

their time. Jobs and retail, specifically entertainment retail, are good geographic guideposts for where we scout and set up shop. We go where people want to go and spend time, and we identify those opportunities ahead of the pack.

Right now, we believe the majority of good opportunities exist in suburbs that are seeing an influx of new jobs and residents. We're building and redeveloping communities that are adjacent to vibrant areas that offer a wide array of unique dining, retail and entertainment experiences and appeal to today's Class A renter.

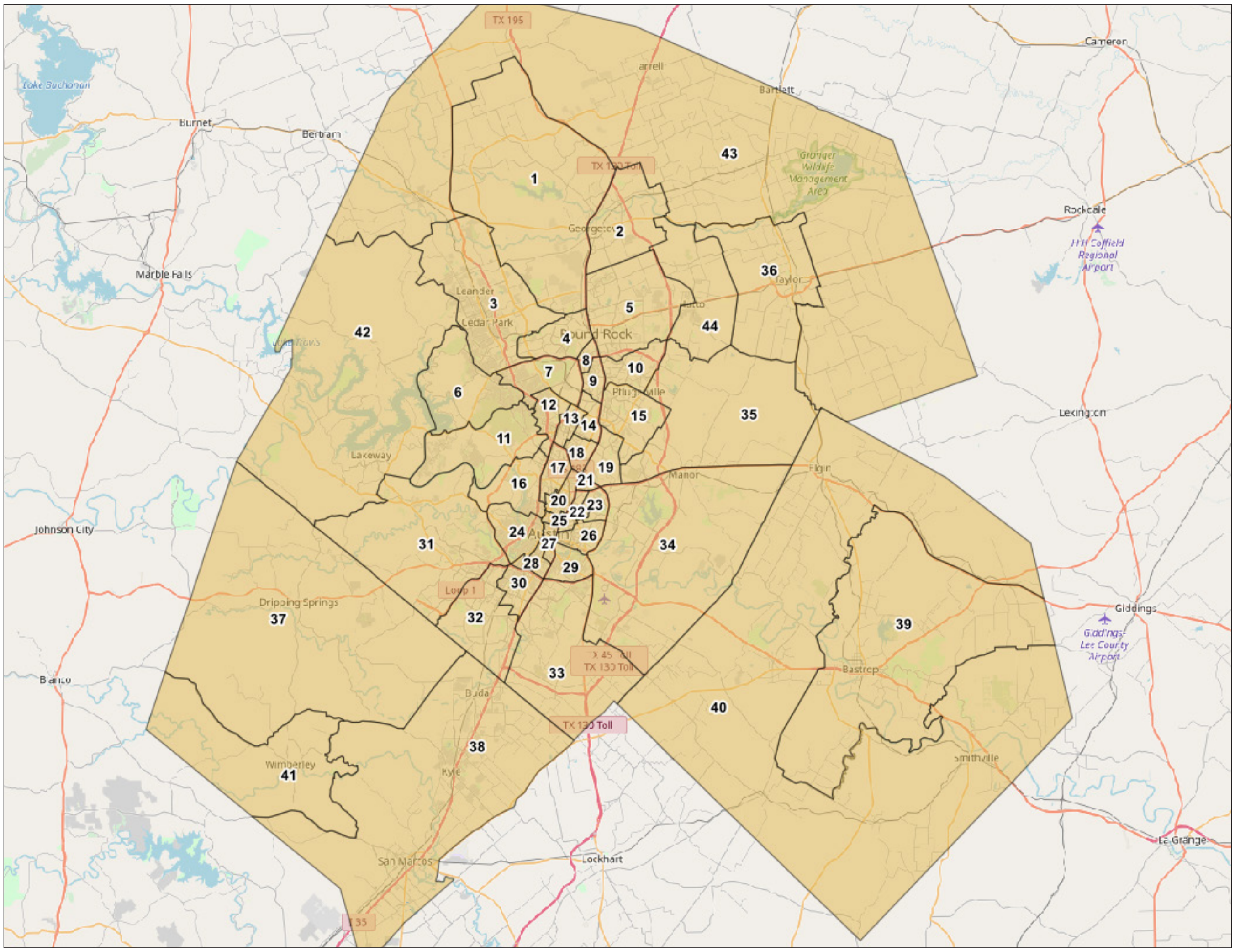
Describe the make-up of your portfolio.

From a historical perspective, we've done around 60 percent new development and 40 percent acquisition/repositioning of existing properties. All of the new communities we develop are Class A, while properties that we acquire are usually A- or B+. Our value-add assets ultimately return to Class A status upon the completion of capital improvements and addition of new amenities.

What growth initiatives are planned for 2019?

Pollack Shores will continue to expand in the Southwest. We will break ground on new projects in Colorado and Texas this year, with hopes of being in Phoenix by the end of 2019. We're also getting into the age-targeted/active adult side of the business, which is separate and distinct from the traditional senior living category. Today's Baby Boomers are more active than preceding generations and seek a turnkey, vibrant living experience.

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.