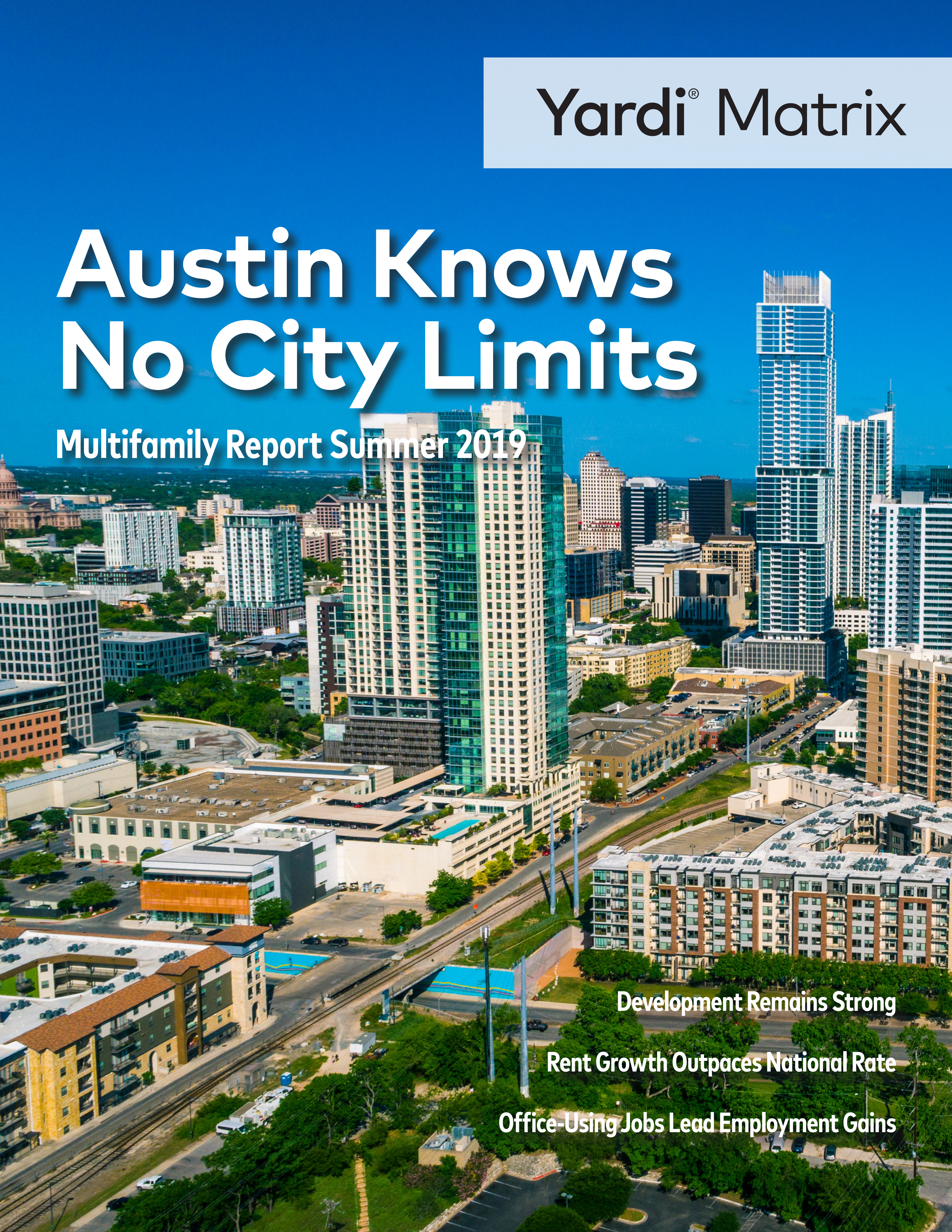
Yardi® Matrix

Austin Knows No City Limits

Multifamily Report Summer 2019



Development Remains Strong

Rent Growth Outpaces National Rate

Office-Using Jobs Lead Employment Gains

Market Analysis

Summer 2019

Contacts

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Anca Gagiuc
Associate Editor

Job Growth Softens, Occupancy Inches Up

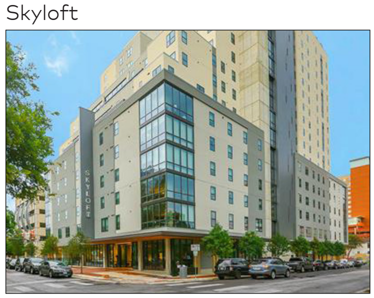
Austin's multifamily market is poised for a stable 2019, with rent growth rising 3.7% year-over-year through April, outperforming the national rate by 70 basis points. Developers are struggling to keep up with demand, and the labor shortage is not helping: The occupancy rate in stabilized properties rose 50 basis points over 12 months, to 94.4% as of March.

Employment growth softened to 2.5% as of March, with the addition of 22,700 jobs, but remained way above the 1.6% U.S. figure. Moreover, following exceptional performance over the past few years, the job market is bound to moderate further. The tech city's office-using industries added 10,400 jobs, nearly half of Austin's gains, led by the professional and business services sector. Trade, transportation and utilities added 4,700 positions and is expected to grow further with the expansion of Austin-Bergstrom International Airport, which is anticipated to wrap up by 2040.

Some 800 units were delivered in the first four months of 2019, all in the Lifestyle segment. More than 23,000 units were underway as of April, with the bulk targeting the upscale end of the spectrum. Of these, nearly 11,000 are slated for completion by the end of the year. With demand slated to remain strong while development powers through, we expect the average Austin rent to advance 4.1% this year.

Recent Austin Transactions

Skyloft

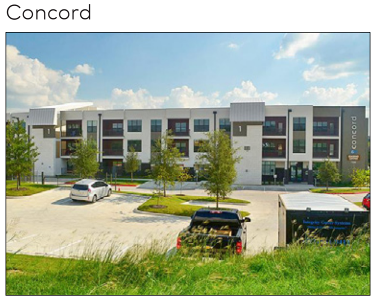


City: Austin, Texas
Buyer: Nelson Partners
Purchase Price: $100 MM
Price per Unit: $471,698

Muir Lake

City: Cedar Park, Texas
Buyer: DRA Advisors
Purchase Price: $60 MM
Price per Unit: $180,723

Concord



City: Austin, Texas
Buyer: B & M Management
Purchase Price: $47 MM
Price per Unit: $134,967

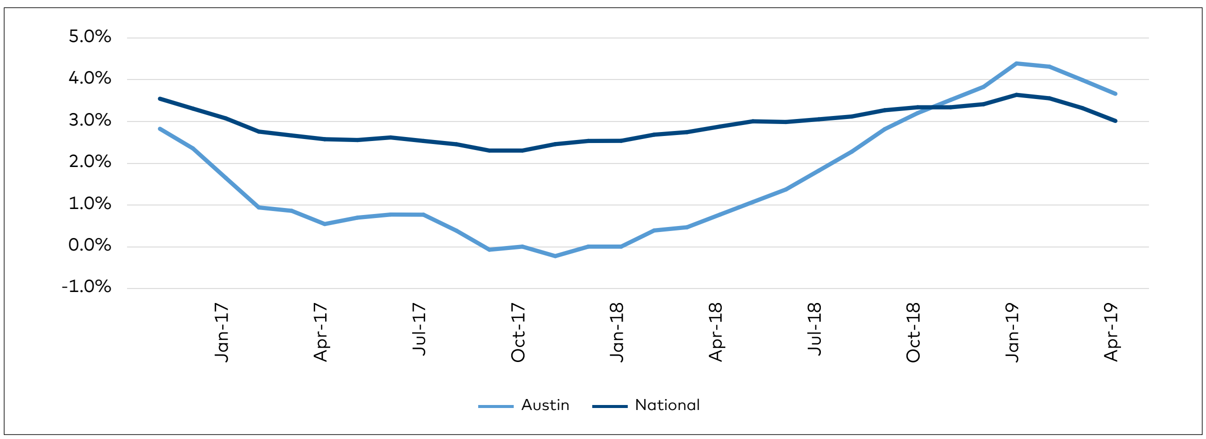
Nalle Woods

City: Austin, Texas
Buyer: Morningside Group
Purchase Price: $43 MM
Price per Unit: $179,727

Rent Trends

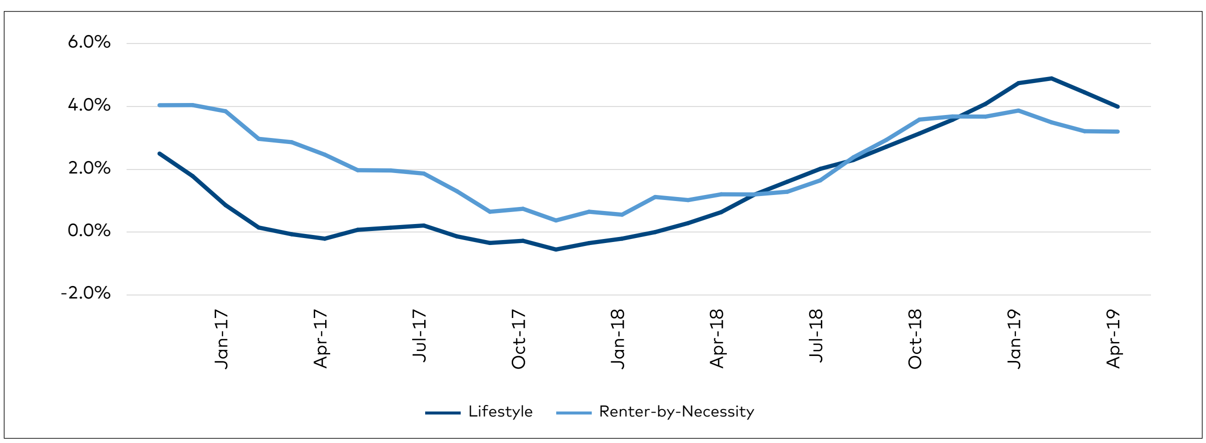
- After peaking at 4.4% in January, year-over-year rent growth in Austin corrected slightly, reaching 3.7% through April, still above the 3.0% national average. At $1,358 as of April, the average Austin rent trailed the U.S. figure by $78. Despite the softening, the metro's performance is well above last April's tepid 0.8% year-over-year increase.
- Lifestyle rents led growth, rising 4.0% year-over-year to an average of $1,483. Strong employment expansion in office-using industries bolstered demand for upscale rentals, which restored rent evolution back to positive numbers after a brief oversupply period in the second part of 2017. Working-class Renter-by-Necessity rates were up 3.2% to $1,128 during the same timeframe.
- Rents were up across nearly all submarkets, led by Berkman Drive (up 7.9% to $1,069) and Pleasant Hill–West (6.6% to $1,219). Downtown North (4.0% to $2,535) and the University of Texas (3.2% to $2,272) remained the most expensive and sought-after submarkets. Meanwhile, the average rent on Far West Boulevard dropped 50 basis points, to $1,175.
- With demand bound to remain strong while development powers through, Yardi Matrix expects the average Austin rent to advance 4.1% this year.

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

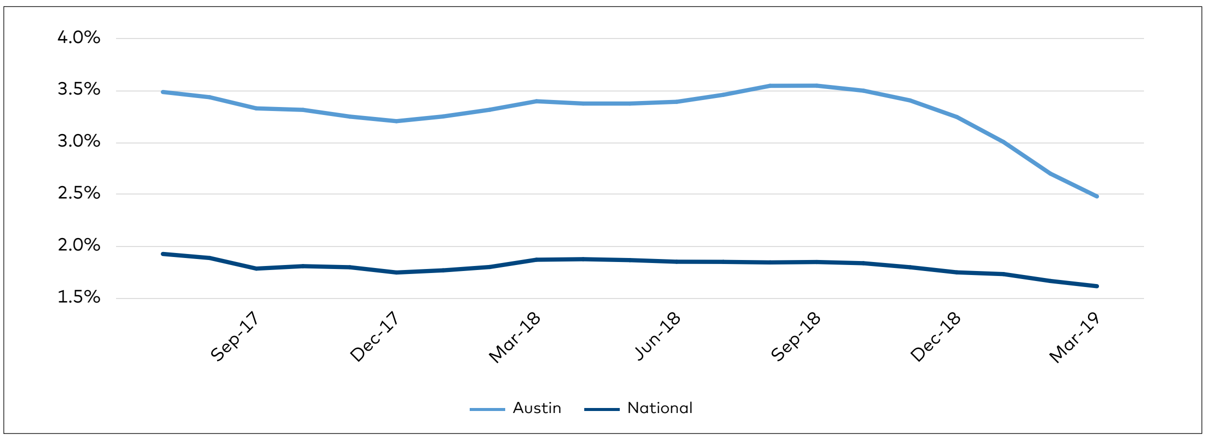
Economic Snapshot

- Austin gained 22,700 jobs in the 12 months ending in March for a 2.5% expansion, well above the 1.6% national figure, but there are signs of moderation. After years of robust performance, the metro's economic growth softened, its main headwind being the extremely stretched labor market that might hinder the ability of local employers to continue raising output. The unemployment rate stood at 3.0% in February, the lowest of Texas' four largest metros and outperforming the 3.8% U.S. figure.

- Last year's exceptional economic growth was spearheaded by Apple and Amazon, which announced further expansions in the metro; although the first employees won't move in for nearly three years, these statements act as a magnet for further growth. In the 12 months ending in March, office-using sectors added 10,400 jobs, nearly half of the metro's total employment growth. Meanwhile, work wrapped up at Austin-Bergstrom International Airport's nine-gate expansion and ABIA is slated to keep growing, as work is set to continue throughout 2040.

- Hospitality contracted by 800 jobs, which is partially due to seasonal fluctuations. Otherwise, the sector is poised for growth, with several new hotels and one soccer stadium delivered in the past year and a new Major League Soccer stadium underway. The baseball scouting agency Perfect Game is relocating to the metro and is expected to drive demand for some 150,000 hotel room nights annually starting in 2021.

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	17.5%	6,000	3.3%
40	Trade, Transportation and Utilities	181	16.7%	4,700	2.7%
65	Education and Health Services	128	11.8%	4,100	3.3%
55	Financial Activities	65	6.0%	2,800	4.5%
15	Mining, Logging and Construction	65	6.0%	1,900	3.0%
30	Manufacturing	61	5.6%	1,600	2.7%
50	Information	34	3.1%	1,600	5.0%
90	Government	186	17.2%	800	0.4%
80	Other Services	45	4.2%	-	0.0%
70	Leisure and Hospitality	129	11.9%	-800	-0.6%

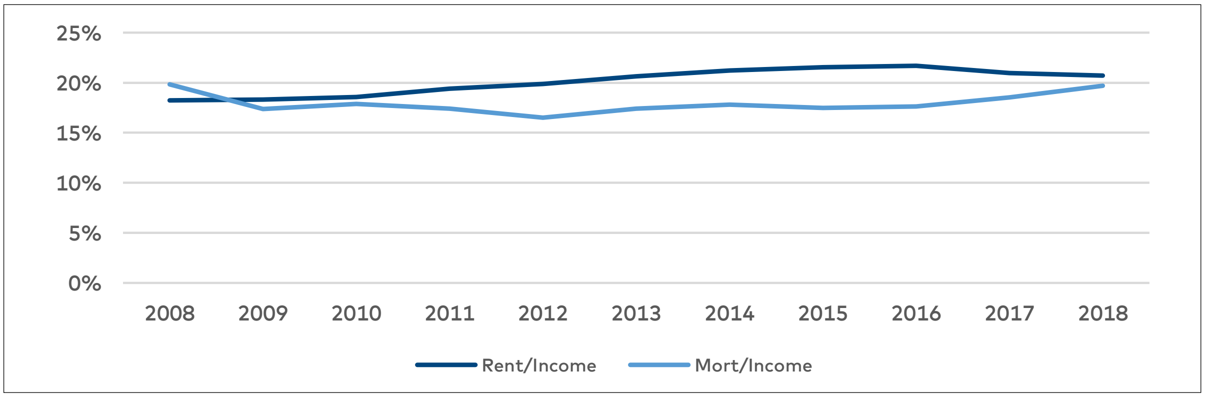
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

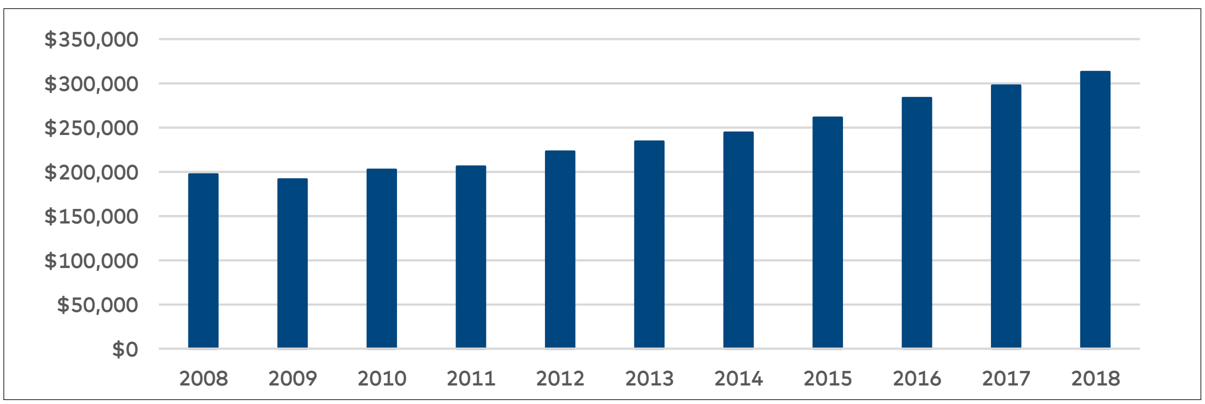
- Austin home prices continued to rise, with the median value reaching $312,877 in 2018. This marks a 5.2% yearly rise and a 59% hike over a decade. Last year, the average rent accounted for 21% of the area median income, while the average mortgage encompassed 20%.
- The disparity between incomes and home prices has worsened, but remains below the rate of many other tech cities, including San Jose, San Francisco and Seattle. According to Yardi Matrix data, the metro had 15 fully affordable communities underway as of April, adding up to 3,411 units, of which more than 1,600 units in nine projects are slated for delivery 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's quality of life is its biggest development engine. Some 55,000 residents moved to the metro in 2017, up 2.7%.
- The metro's population expanded 12.3% between 2013 and 2017, well above the 3.0% U.S. figure.

Austin vs. National Population

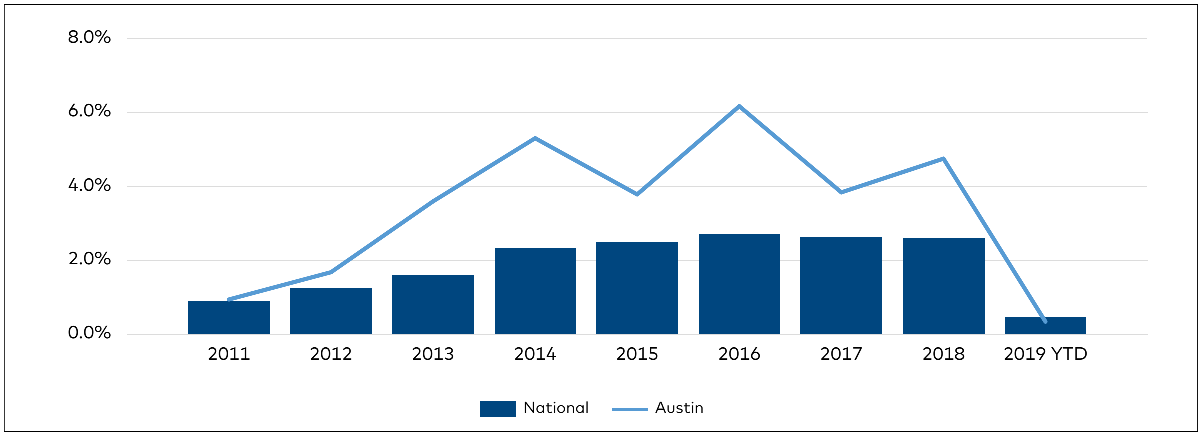
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Austin Metro	1,883,528	1,942,255	2,000,784	2,060,558	2,115,827

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

Supply

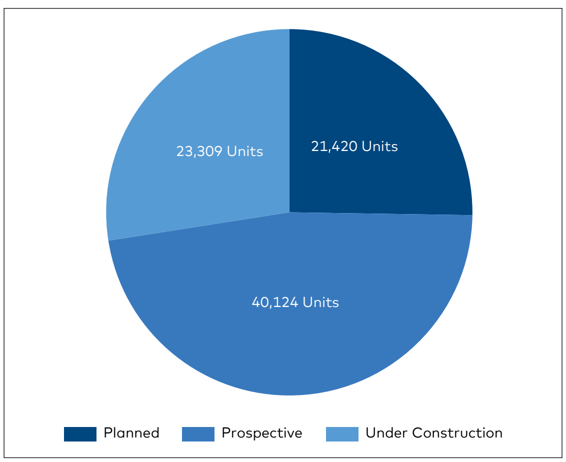
- The metro had 23,309 apartments under construction as of April, almost 11,000 of them slated for completion by the end of the year. Developers added 794 units in Austin during the first quarter of 2019, all targeting Lifestyle renters. This comes after last year's 10,892 new apartments, or 4.8% of the multifamily stock, well above the U.S. average. In response to the metro's robust demographic expansion, developers have completed more than 51,000 units since 2014, nearly one-third of which are located within 5 miles of downtown Austin.
- Seven of the most active submarkets in the metro, each with more than 1,000 units under construction, account for more than half of the development pipeline. Distant Dessau and East Central Austin led construction activity with 2,737 and 2,242 units underway. The metro also had more than 60,000 units in the planning and permitting stages as of April. StreetLights Residential 373-unit The Elizabeth at Presidio is the metro's largest community slated to come online this year.
- Despite a strong delivery rate over the past three years, the occupancy rate in stabilized properties actually improved, up 50 basis points to 94.4% as of March.

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



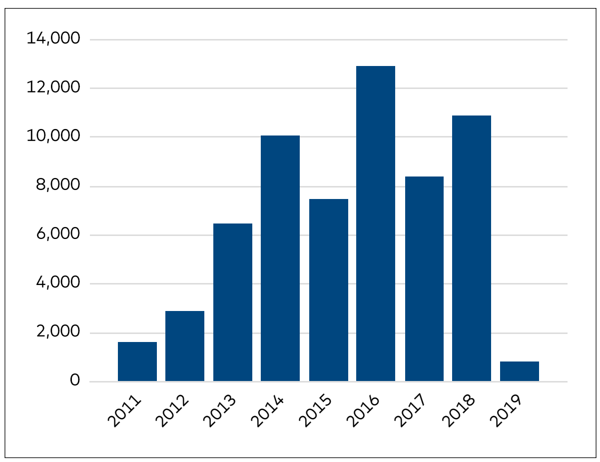
Source: YardiMatrix

Development Pipeline (as of April 2019)



Source: YardiMatrix

Austin Completions (as of April 2019)

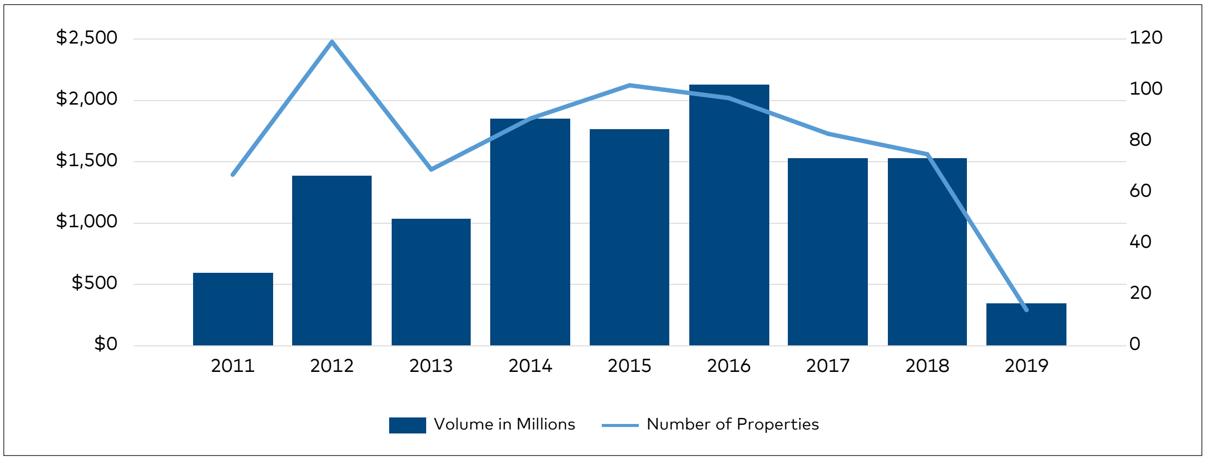


Source: YardiMatrix

Transactions

- Transaction activity maintained a stable pace, with $346 million in multifamily properties trading in Austin during the first quarter of 2019. Of the 14 assets that traded, more than two-thirds were in the Lifestyle segment, for which acquisition yields usually sit in the 4.5% to 5.0% range. Investors mainly targeted the core and northwestern submarkets, as well as major transit corridors.
- At $139,079, the average price per unit in Austin remained relatively flat in the first quarter over 2018 values, slightly below the $150,880 U.S. figure. The average per-unit price in Texas' capital registered a hefty 97% increase since 2011, compared to the 76% rise in the national average.
- Several buyers stood out in the 12 months ending in April. Electra America acquired 926 apartments in Austin assets of 50 or more units, followed by Nitya Capital (910 units) and Cortland (670).

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



Source: YardiMatrix

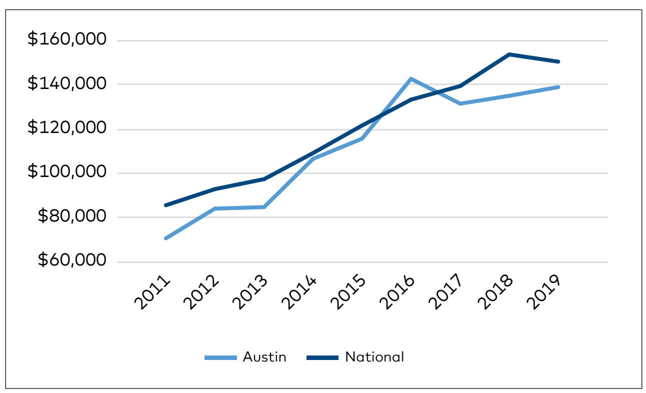
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Cedar Park	152
University of Texas	143
St. Edwards Park	123
East Central Austin	115
Sunset Valley	107
Far West Boulevard	89
Jollyville–North	82
San Marcos/Kyle	78

Source: YardiMatrix

[1] From May 2018 to April 2019

Austin vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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MULTI-HOUSING NEWS

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CBRE Arranges Student Housing Acquisition Loan

The 135-unit community features a mix of studio to four-bedroom units. The property serves students of the University of Texas.

Avanath Pays $35M For Affordable Asset In Texas' Capital

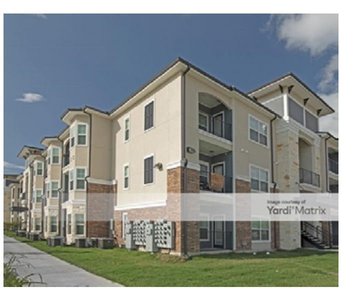
At the time of sale, the 280-unit property was 96.4 percent occupied, with historical occupancy averaging 98.0 percent over the last three years.

New Condo Project Breaks Ground In South Austin

The upcoming development aims to accommodate the "missing middle" segment in Austin, with the price of the units ranging between $200,000 and $400,000.

Condo Project Scores $88M Loan

Pearlstone Partners and Newgard Development Group will use the construction financing to break ground on the 249-unit property in the city's Rainey Street District by the end of June.



JLL Closes Sale Of HUD-Financed Luxury Asset

According to Yardi Matrix data, RED Capital Group originated a $27 million loan in 2016, with the maturity date set for 2058.

Camden Realty Trust Buys Midrise Asset For $120M

The Millennium Rainey is a 326-unit, LEED Gold-certified midrise completed in 2016 in the city's historic Rainey Street district. NKF represented the seller in the transaction.

Top Multifamily Completions in Austin

MULTI-HOUSING NEWS

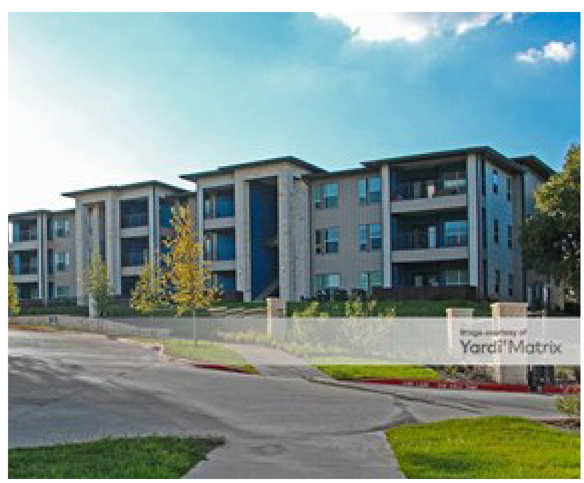
data by Yardi® Matrix

By Anca Gagiuc

Apartment demand in Austin points to another strong year for the multifamily market. A strong indicator is rent growth, up 3.7 percent year-over-year through April, to $1,358. Robust demographics coupled with above-trend employment growth have put more pressure on developers. That has led to a rise in the market's occupancy rate in stabilized properties, to 94.4 percent as of March, marking an increase of 50 basis points year-over-year.

Property Name	Units	Square Feet	Owner	Address	City
Terra	372	318,962	Fine Line Diversified Development	8300 Bluff Springs Road	Austin
Crestview Commons	353	276,772	Trammell Crow	801 Sugaree Ave.	Austin
Latitude at Presidio	337	323,295	Carter-Haston Real Estate Services	3440 Ranch Trails	Cedar Park
Hillstone at Wolf Ranch	332	307,473	Leon Capital Group	2300 Wolf Ranch Pkwy.	Georgetown
Bexley Round Rock	330	303,103	Weinstein Properties	1401 Satellite View	Round Rock

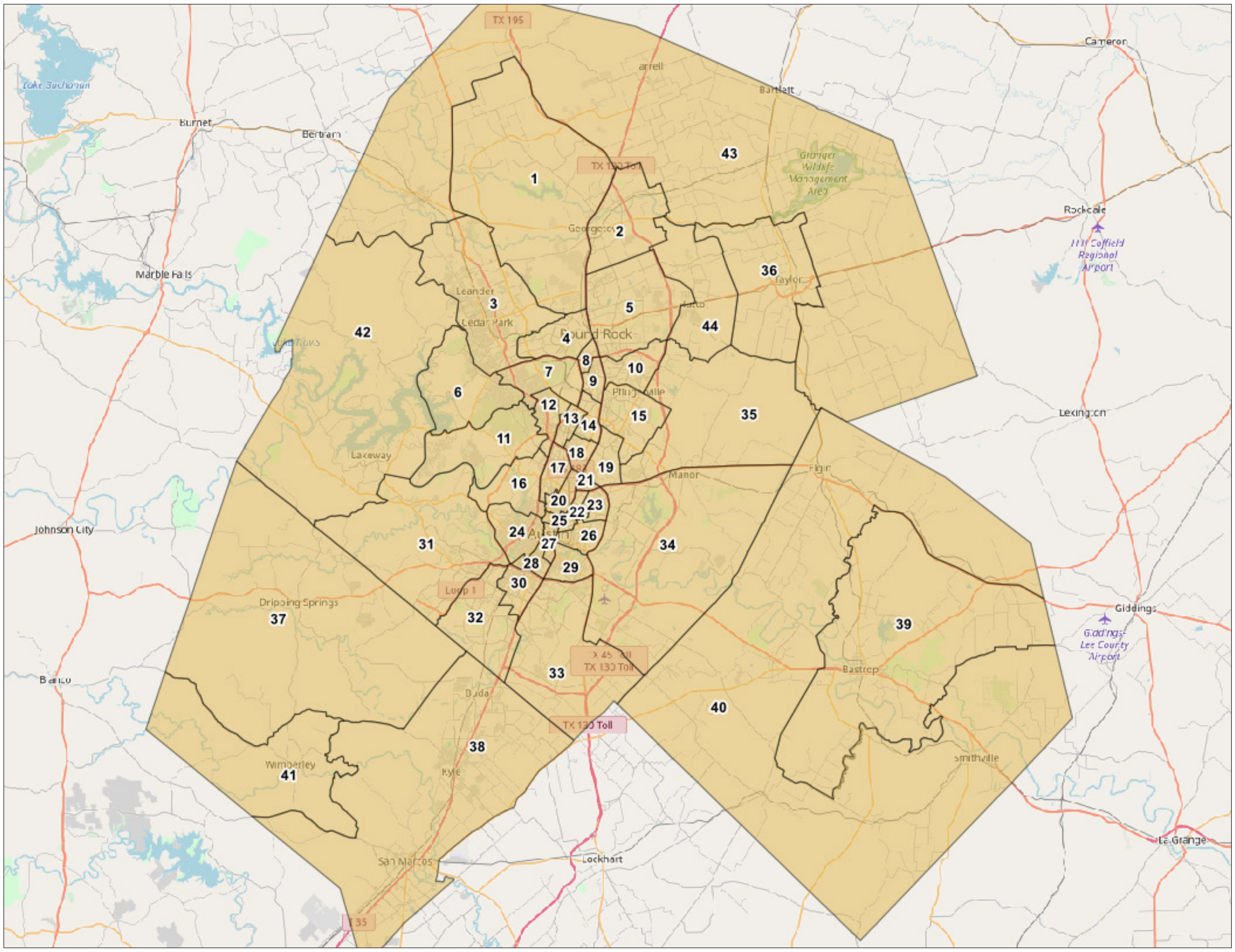
TERRA



The largest delivery of the past year in Austin, Fine Line Diversified Development's 372-unit property, also shares ownership with an additional owner—Hudgins Cos. The 16-building property spreads across 39 acres at 8300 Bluff Springs Road, south of East Ben White Boulevard. The community was completed in December 2018, and by April it was nearly 70 percent occupied.

Comprising one- to three-bedroom units with private balconies/patios, the property features Kwikset smart locks on front doors, Dwelo in-unit technology packages and smart thermostats, a mail station with 24-hour parcel locker access and a fenced dog park with a dog wash station.

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.