Yardi® Matrix

Austin: Capital Confidence

Multifamily Report Fall 2019

Rent Growth Ranks Highly

Development Boom Continues

Transaction Activity Remains Elevated

Market Analysis
Fall 2019

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Strong Demand Pushes Up Rent Growth

Austin's strong economic performance and demographic expansion are the main drivers of the multifamily market's sustained growth. Rent gains in the metro, up 5.0% year-over-year through August, ranked fourth among the country's major metros. The average rent rose to $1,416, trailing the national U.S. rate by only $56.

Employment growth was diverse, and despite softening to 2.2% year-over-year through June, the rate remained well above the national average. The metro gained 22,800 jobs in the 12 months ending in June, with the professional and business services sector (7,600 jobs) leading growth. Office-using jobs accounted for half of Austin's employment gains, with the addition of 11,400 jobs. The metro is the 14th most congested in the U.S., but extensive work on its infrastructure is underway, boosting the trade, transportation and utilities sector by 4,700 jobs. Mining, logging and construction rounded out the top three, with the addition of 3,500 jobs.

More than 5,800 units were delivered in 2019 through August, all upscale. Austin is poised for a new cycle high in deliveries, as its pipeline consists of some 22,000 units, 13,500 of which are slated for completion by the end of the year. More than $1 billion in multifamily assets traded by August, with a per-unit price of $157,313. Yardi Matrix expects rents to rise 5.1% in 2019.

Recent Austin Transactions

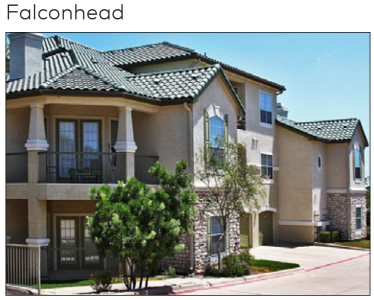
Madrone

City: Austin, Texas
Buyer: BSR Trust
Purchase Price: $104 MM
Price per Unit: $188,448

Bridge at Asher

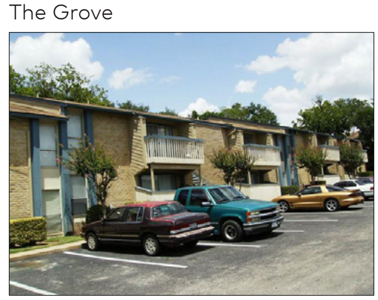
City: Austin, Texas
Buyer: Housing Authority of Austin
Purchase Price: $75 MM
Price per Unit: $165,192

Falconhead



City: Austin, Texas
Buyer: SWBC Real Estate
Purchase Price: $47 MM
Price per Unit: $188,817

The Grove



City: Austin, Texas
Buyer: Greenlaw Partners
Purchase Price: $29 MM
Price per Unit: $208,659

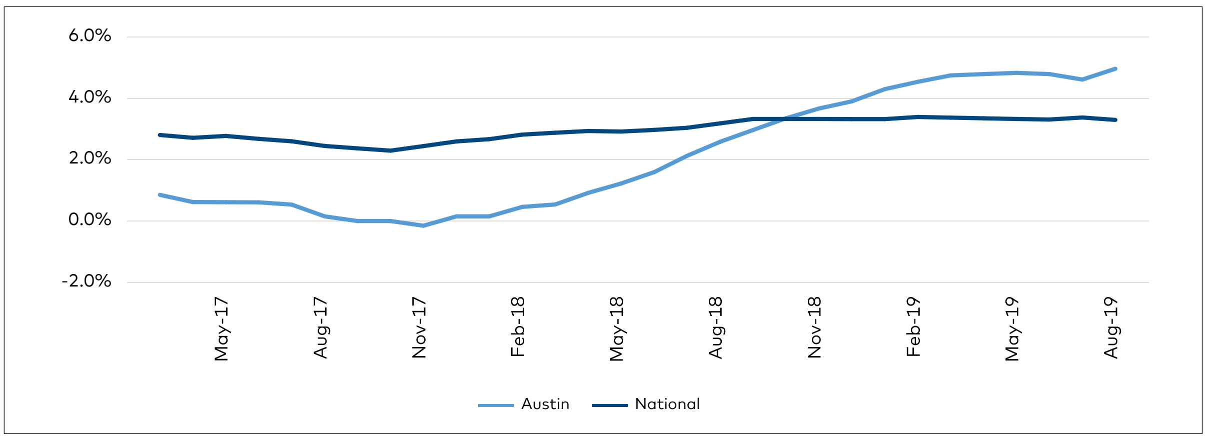
Rent Trends

- Rent growth has picked up again in Austin, rising 5.0% year-over-year, well above the 3.3% U.S rate. The metro had the fourth-fastest rising rents, sharing the spot with Sacramento among the nation's major metros. By August, the average rent—at $1,416—trailed the U.S. average by only $56. Robust rent growth amid a consistent new supply, which is poised to set a new cycle peak this year, reflects the strong demand for multifamily units.

- Rents in the upscale Lifestyle segment led growth, up 5.1% year-over-year to an average of $1,554. Working-class, Renter-by-Necessity rates were up 4.6% to $1,140 during the same timeframe. RBN assets were in high demand, which was reflected in the occupancy rate for stabilized properties: The rate for RBN apartments grew by 50 basis points to 95.2% as of July, while for Lifestyle units, occupancy slid 50 basis points to 94.9%.

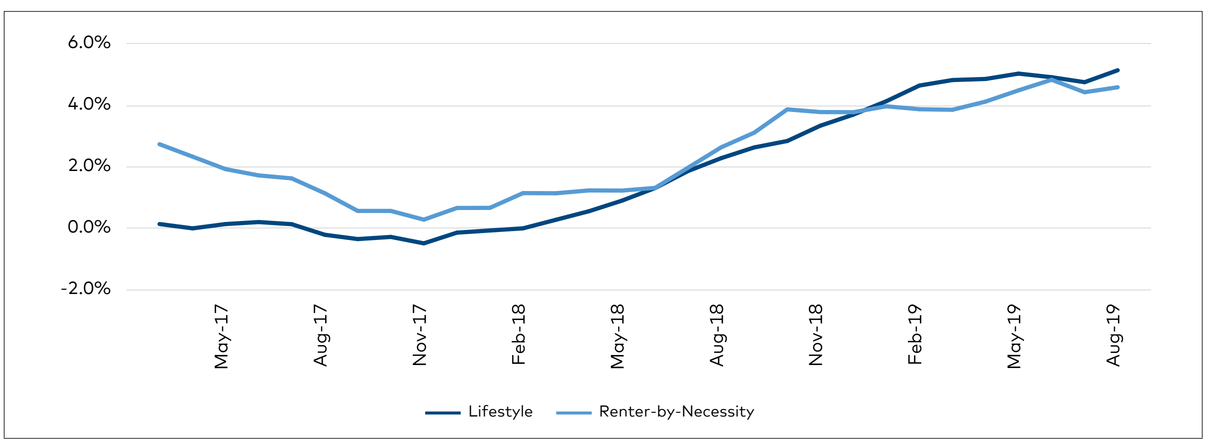
- The number of submarkets with average rents above the $2,000 mark has risen to three: Downtown North (up 7.7% to $2,672), University of Texas (up 4.2% to $2,311) and West End (up 8.0% to $2,017). The metro's robust economy and healthy demographics will likely sustain strong supply and demand in Austin. Yardi Matrix expects rents in the city to rise 5.1% 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

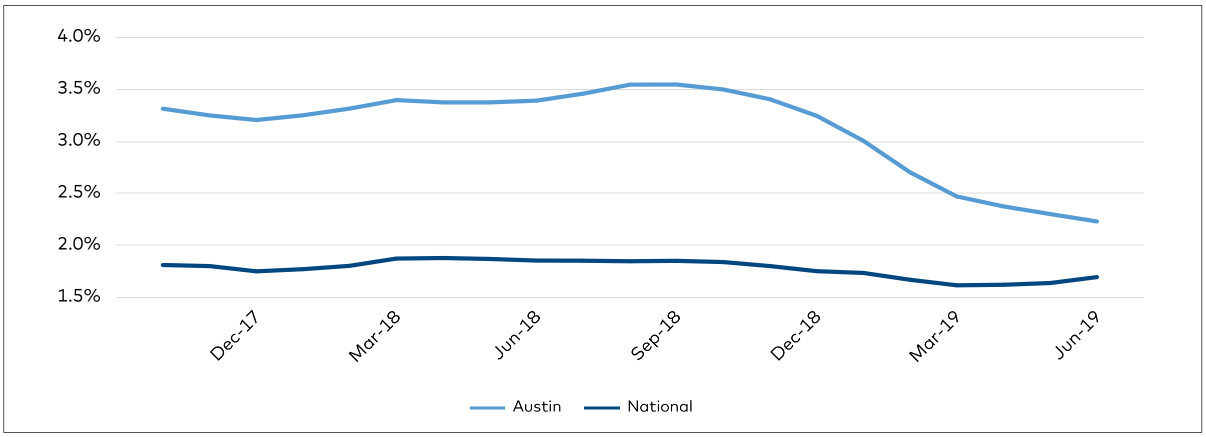
Economic Snapshot

- Employment growth stood at 2.2% year-over-year through June, following the addition of 22,800 jobs. Austin's job gains slightly tempered in 2019 by its own standards, but the rate was still 50 basis points higher than the national figure. Despite the slowdown in employment growth, the unemployment rate stood at 2.7% in June, 100 basis points below the U.S. figure.

- Austin is a hotbed for technology, innovation and startups, so it doesn't come as a surprise that Silicon Hills' employment increase was led by the professional and business services sector, which gained 7,600 jobs. With Apple, Facebook, Oracle and Amazon expanding, growth is likely to endure across the metro. Overall, office-using sectors continued to account for half of Austin's employment growth, with the addition of 11,400 jobs.

- The trade, transportation and utilities sector gained 4,700 jobs during the same interval. TxDOT's $8 billion expansion plan for Interstate 35, which includes the addition of lanes to the highway through Austin, and the construction of two levels of underground tunnels near the University of Texas will continue to contribute to those gains. The initiative exhibits the metro's reaction to its poor public transportation system and roads that were not designed for the increasing amount of traffic.

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	194	17.7%	7,600	4.1%
40	Trade, Transportation and Utilities	183	16.7%	4,700	2.6%
15	Mining, Logging and Construction	69	6.3%	3,500	5.4%
55	Financial Activities	65	5.9%	2,200	3.5%
50	Information	35	3.2%	1,600	4.8%
65	Education and Health Services	125	11.4%	1,400	1.1%
80	Other Services	48	4.4%	1,200	2.6%
30	Manufacturing	61	5.6%	500	0.8%
90	Government	186	16.9%	200	0.1%
70	Leisure and Hospitality	134	12.2%	-100	-0.1%

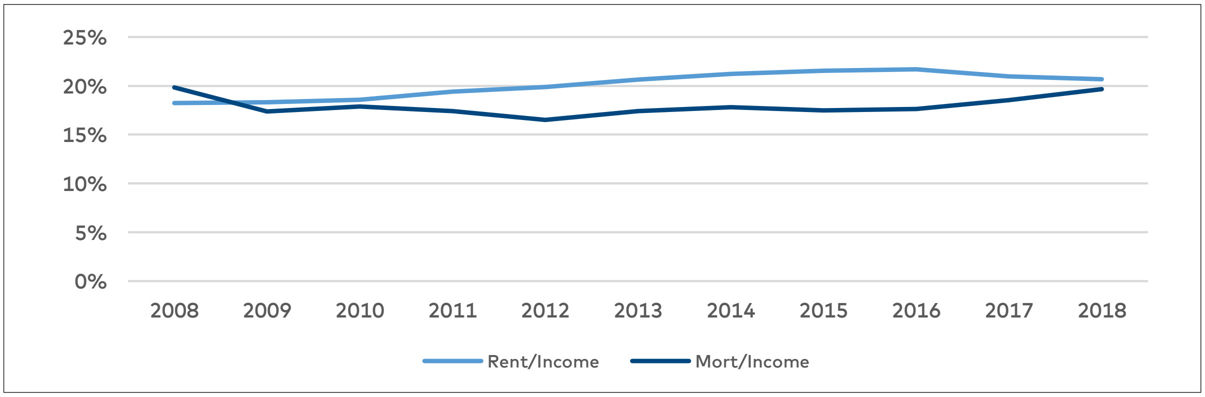
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

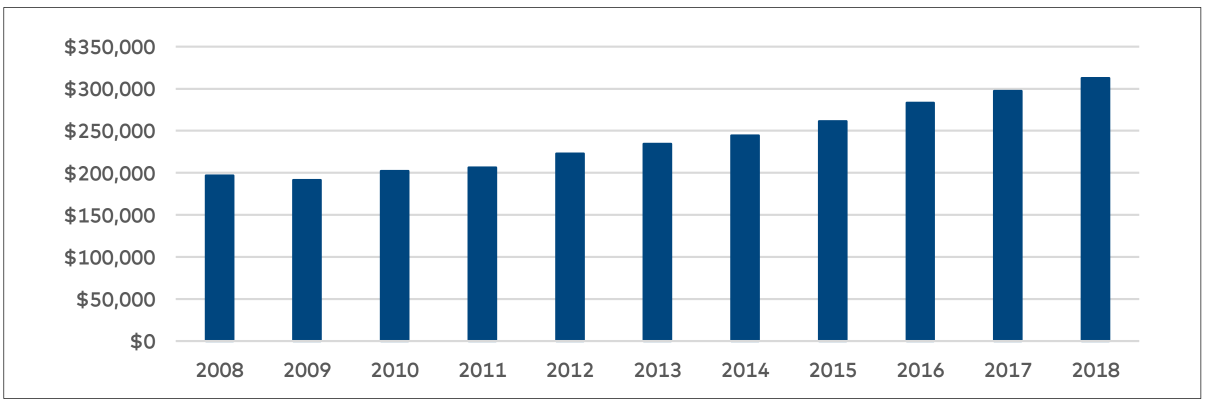
- Austin's median home price rose 5.2% to $312,720 in 2018, marking a 58.8% increase over the past decade. The city's ongoing economic development has brought the average mortgage payment almost on par with the average rent, accounting for 20% of the area median income.
- Rents have steadily increased, while significant deliveries have done little to put a dent in the strong demand for apartments. As a result, the average rent—at $1,416 as of August—accounted for 21% of the area median income.

Austin Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Austin Median Home Price



Source: Moody's Analytics

Population

- The fastest-growing major metro area in the country, Austin posts a pattern of high migration activity.
- Austin added 55,269 residents in 2017 for a 2.7% expansion, nearly four times the U.S. rate.

Austin vs. National Population

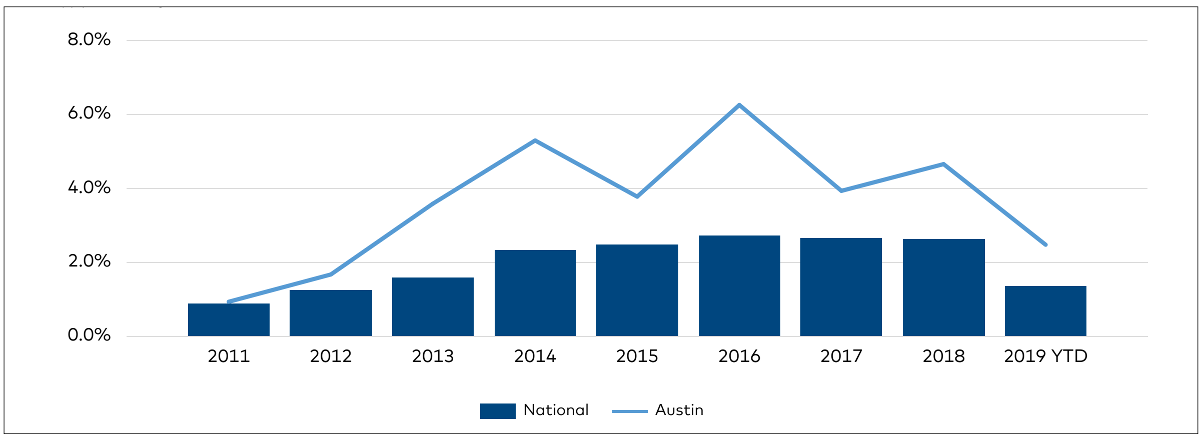
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Austin Metro	1,883,528	1,942,255	2,000,784	2,060,558	2,115,827

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

Supply

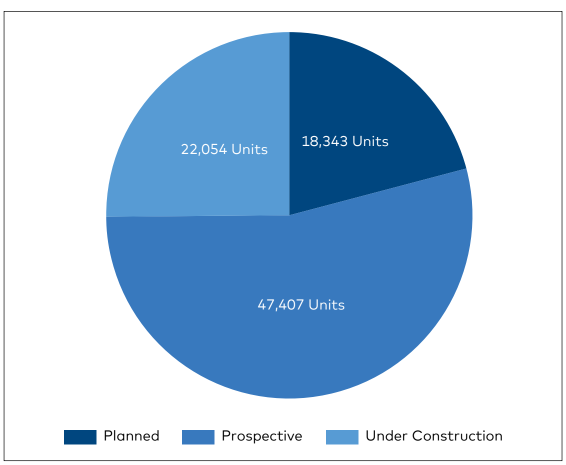
- Developers added some 5,900 units in Austin this year through August, all in the Lifestyle segment. The figure represented 2.5% of total stock, 110 basis points higher than the national rate. Despite increased deliveries over the past few years, supply has lagged behind demand. The average occupancy rate in stabilized properties slid 10 basis points year-over-year, to 94.7% as of July.
- Some 22,054 units were underway as of August, more than 13,500 of which are expected to be delivered by year's end. This would mark Austin's best year for deliveries during this cycle, surpassing the volume recorded in 2016, when 13,160 units came online in the metro. Moreover, 65,000 units were in the planning and permitting stages.
- Construction activity was strong as of August, particularly in eight submarkets, each of which had more than 1,000 units underway, accounting for about half of the pipeline. Central Austin and the northern area continue to attract most new development: East Central Austin (2,534 units) and Cedar Park (2,419 units) led construction activity, followed by Dessau, with 1,284 units underway. The Carroll Cos. was the most active developer in the metro, with more than 1,364 units under construction.

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



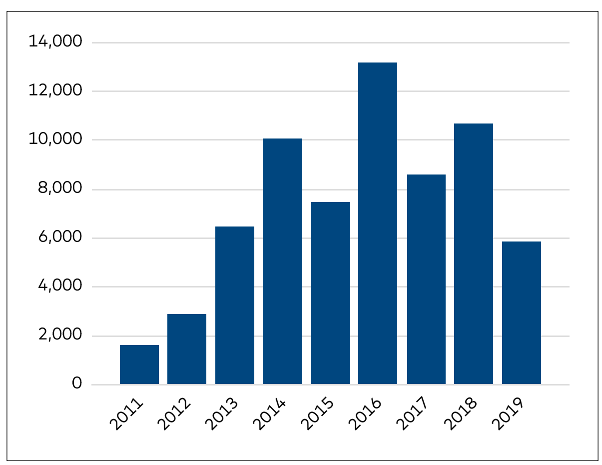
Source: YardiMatrix

Development Pipeline (as of August 2019)



Source: YardiMatrix

Austin Completions (as of August 2019)



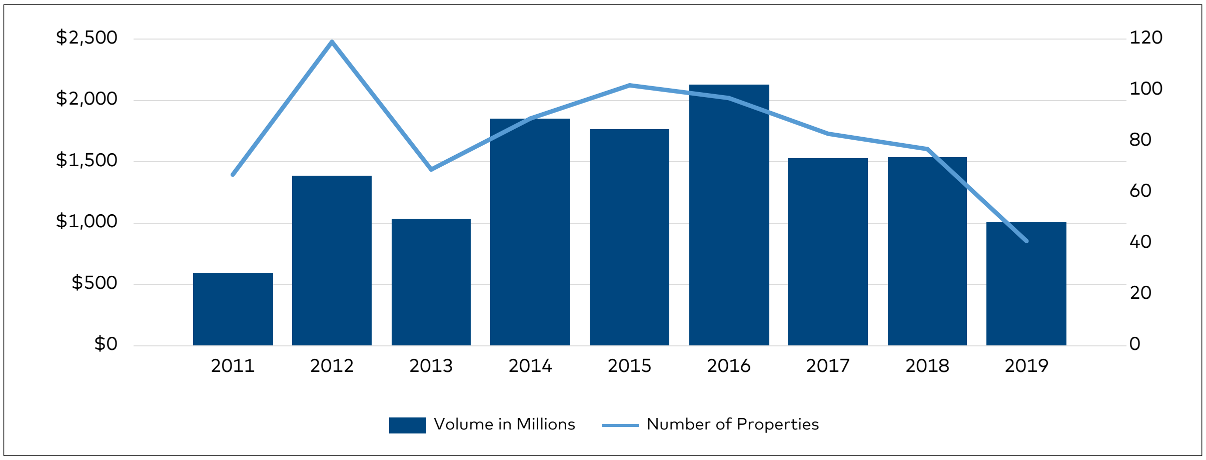
Source: YardiMatrix

Transactions

- Transaction volume for multifamily units surpassed $1 billion as of August. Of the 41 properties that traded, more than half were in the Lifestyle segment, with investors especially drawn to core and northern submarkets. In the 12 months ending in August, multifamily deals totaled $1.7 billion, with the top seven submarkets accounting for more than half of the volume.

- The average price per unit for Austin assets rose 17% to $157,313 through August, trailing the $159,011 U.S. figure. The increase resulted from the price hike for Lifestyle units, which averaged $173,333. Meanwhile, RBN assets traded at an average price of $112,191 per unit, registering a 1.7% decrease. The quarter's largest transaction was marked by BSR Trust's purchase of Madrone, a 34-building, garden-style community located in west Austin. The asset sold for $104 million or $188,448 per unit.

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



Source: YardiMatrix

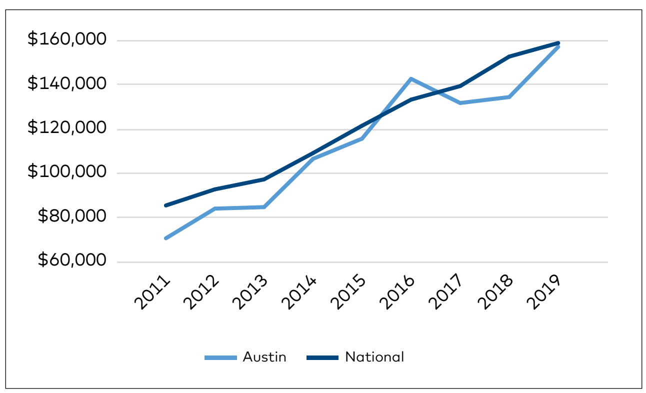
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Cedar Park	153
Oak Hill	151
University of Texas	148
Sunset Valley	146
St. Edwards Park	123
Downtown–North	120
Round Rock–East	97
Far West Boulevard	89

Source: YardiMatrix

[1] From September 2018 to August 2019

Austin vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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BSR Expands Austin Presence With $104M Buy

The Arkansas REIT acquired Madrone and Cielo, two garden-style communities offering a total of 554 units.

Waterton Reenters Austin With 950-Unit Acquisition

After exiting the market in 2015, the company has now acquired three communities in Texas' capital, 14 miles north of the metro's CBD, betting on a value-add strategy.

Oden Hughes Breaks Ground In Opportunity Zone

The 279-unit multifamily development will include 28 units restricted to households earning less than 80 percent of the median family income.

SWBC Acquires Value-Add Asset In West Austin

SWBC plans to further upgrade the rental units and bring the community up to current standards for high-end properties.

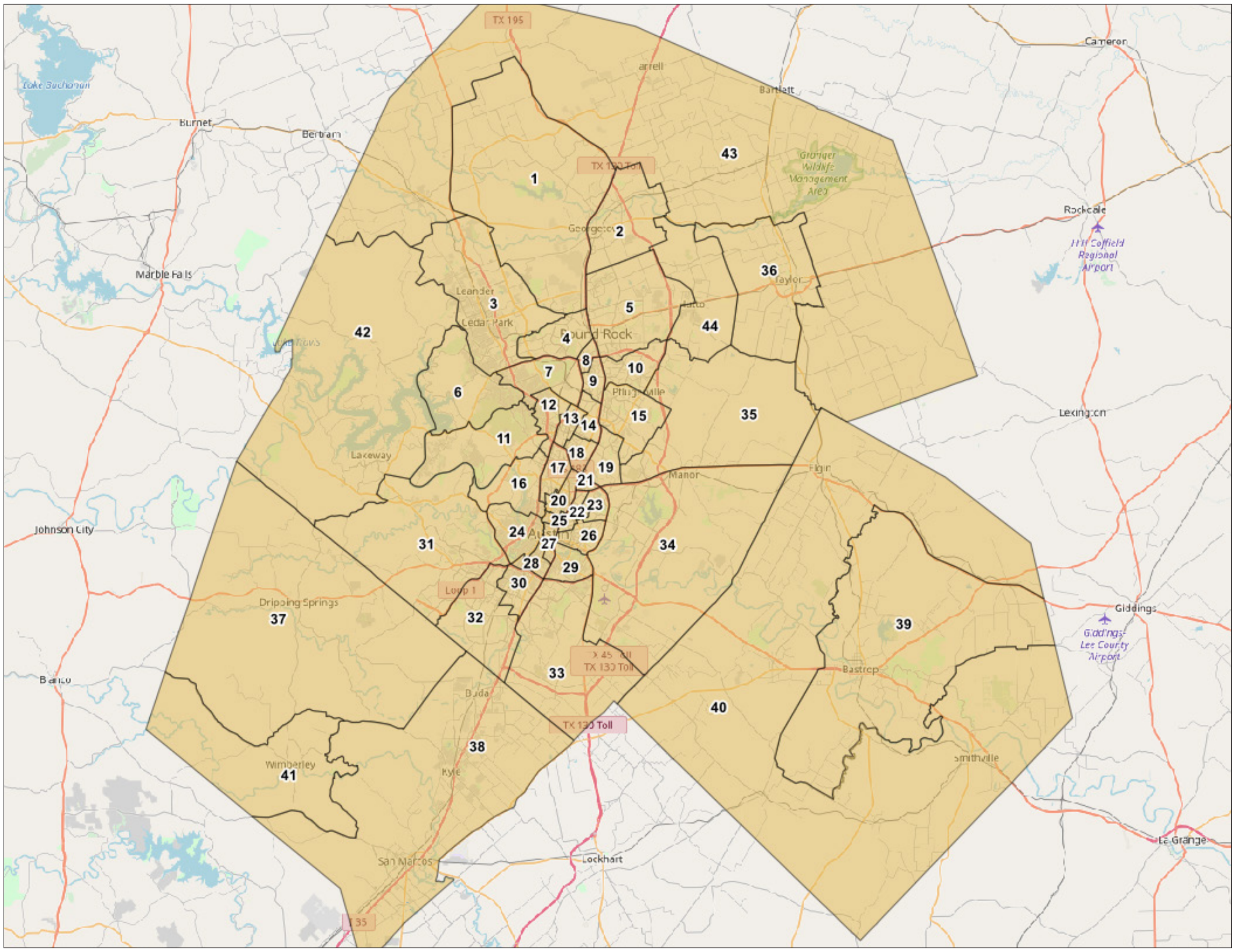
DMA Development Announces New Mixed-Income Asset

Talavera Lofts will encompass 92 units, 90 of which will be reserved to households with incomes at or below 60 percent of the area median income.

Rastegar Property Acquires 2 Value-Add Communities

The company bought Zilker Place Apartments and Redbud Bungalows, both of which are set to undergo capital improvements.

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.