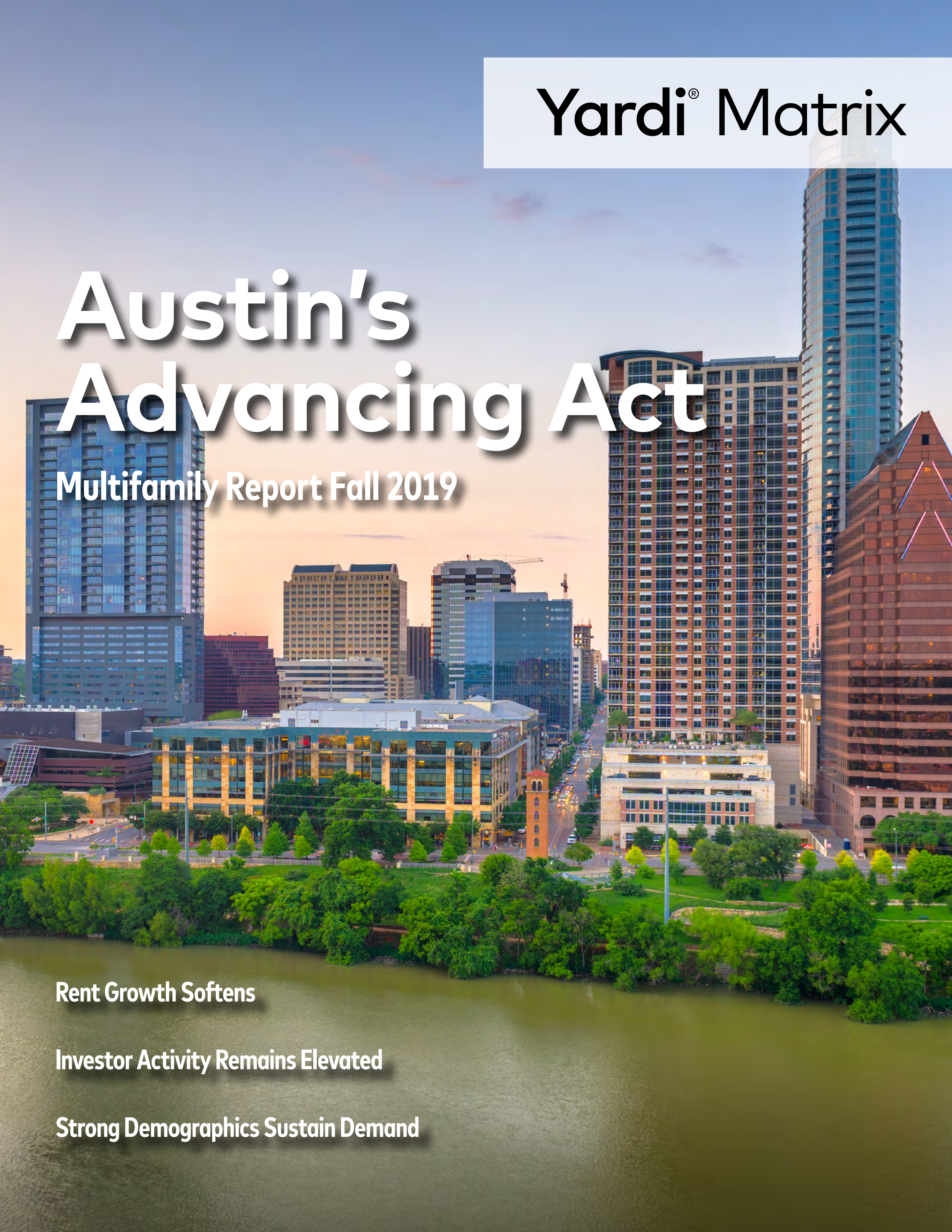
Yardi® Matrix



Austin's Advancing Act

Multifamily Report Fall 2019

Rent Growth Softens

Investor Activity Remains Elevated

Strong Demographics Sustain Demand

Market Analysis

Fall 2019

Contacts

Paul Fiorilla
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 Bolsters Demand

Austin's sustained economic expansion has encouraged in-migration and created exceptional demand for rental housing. This has boosted rent growth and supply additions in the metro. Rent gains moderated, up 4.6% year-over-year through October to $1,420, trailing the national amount by $56.

Although employment growth softened, up only 2.2% year-over-year through September, it was still 40 basis points above the national average. The metro gained 19,500 jobs in the 12 months ending in September, with the trade, transportation and utilities and professional and business services sectors leading growth, up by 5,200 and 5,100 jobs respectively. The trend will likely continue, sustained by tech giants like Apple, Facebook and Google boosting their presence in the metro, which will attract workers from higher-cost regions of the country to relocate to Austin. The Army Futures Command headquarters modernization and the ongoing expansion of Austin-Bergstrom International Airport will support the metro's growth.

More than 6,900 units were delivered in 2019 through October, all catering to the Lifestyle segment, while another 24,900 units were under construction. The transaction volume for multifamily assets during the first 10 months of 2019 has already surpassed 2018's $1.5 billion figure, at an average per-unit price of $150,210.

Recent Austin Transactions

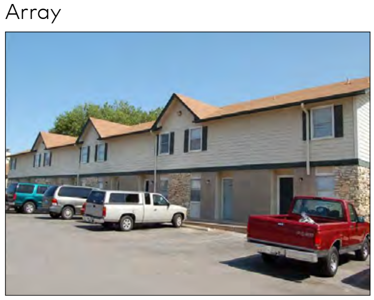
Crescent

City: Austin, Texas
Buyer: Turnbridge Equities
Purchase Price: $73 MM
Price per Unit: $458,250

Crestview Commons

City: Austin, Texas
Buyer: SPI Holdings
Purchase Price: $64 MM
Price per Unit: $181,303

Array



City: Austin, Texas
Buyer: Lion Real Estate Group
Purchase Price: $48 MM
Price per Unit: $128,378

Enclave Falcon Pointe

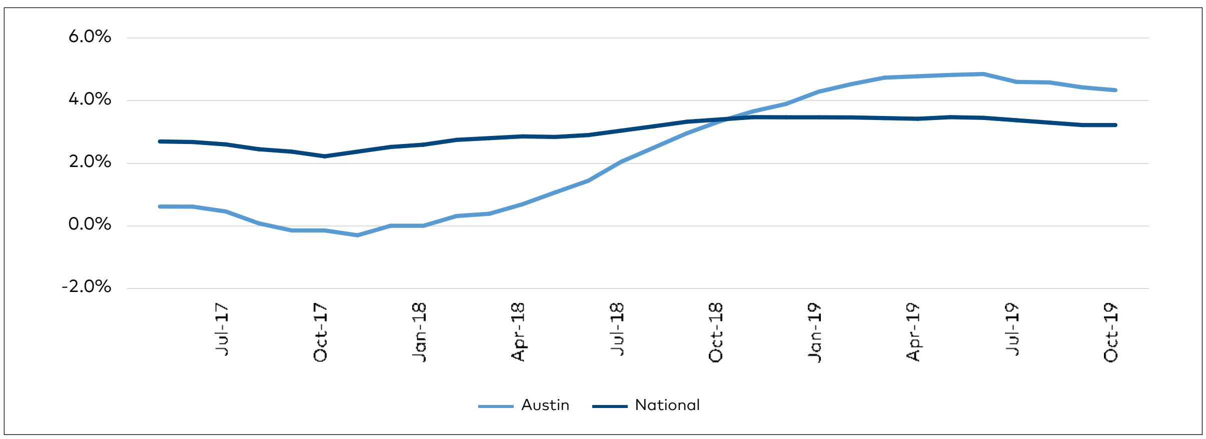
City: Pflugerville, Texas
Buyer: Eaton Vance Investment Managers
Purchase Price: $46 MM
Price per Unit: $141,280

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

Rent Trends

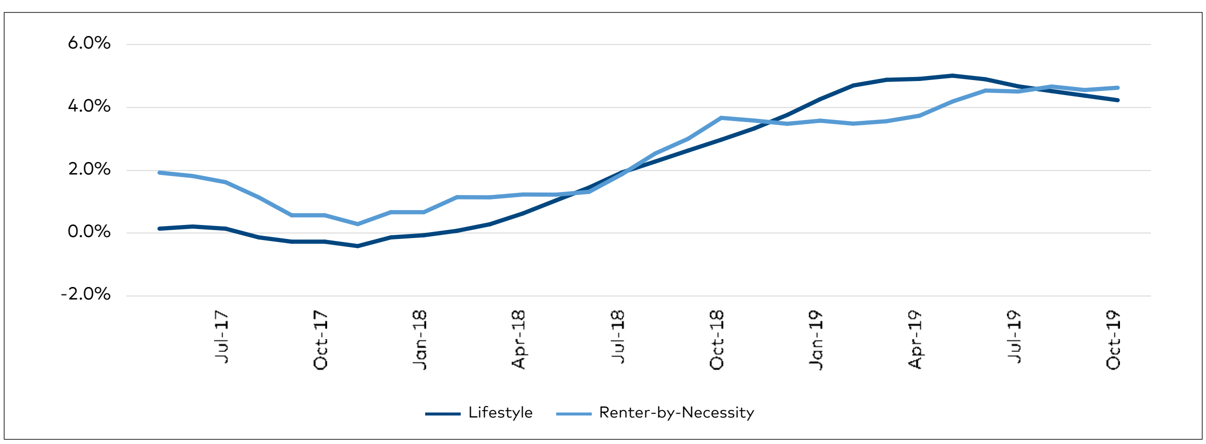
- Rent growth continued strong in Austin, up 4.3% year-over-year through October to an overall average of $1,420, making Austin one of the top 10 major metros for rent growth. The metro's growth rate was 110 basis points above the national average. The extended period of solid economic performance has created exceptionally strong demand in Austin, even despite high levels of multifamily deliveries, which have expanded the metro's stock by more than 57,000 units since 2014.
- Rents in the working-class Renter-by-Necessity segment led growth, up 4.6% year-over-year through October to $1,152. Lifestyle rents were up 4.2% during the same time frame. Demand for RBN assets was higher, in part due to recent deliveries that heavily favored the Lifestyle segment. This was reflected in the occupancy rate for stabilized properties: While the rate for RBN assets grew by 50 basis points year-over-year through September to 95.3%, Lifestyle occupancy stayed flat at 94.7%.
- The most sought-after submarkets were Downtown–North (up 3.6% to $2,643) and University of Texas (up 3.7% to $2,339), with the West End following closely (up 3.9% to $1,961). The largest increases were recorded in northern submarkets—Anderson Mill (up 10.9% to $1,318) and Brushy Creek (7.3%, $1,367).

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

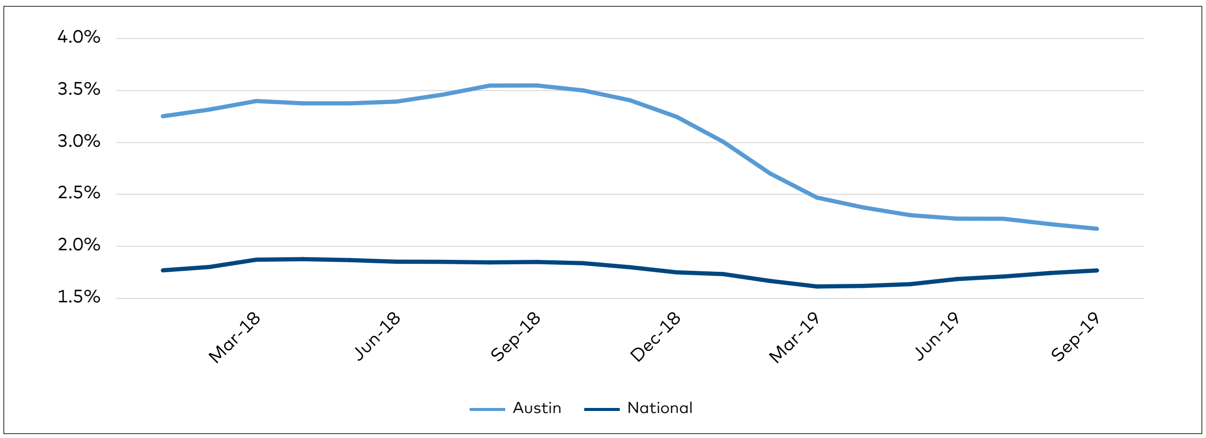
Economic Snapshot

- Austin's employment growth slowed, but still held at a solid 2.2% year-over-year rate, 40 basis points above the national figure. The metro gained 19,500 jobs in the 12 months ending in September, but despite the downshift its unemployment rate stood at 2.8% as of August. The extended economic expansion led to an extremely tight labor market, which could potentially stall growth in the metro, as local businesses may struggle to find employees.

- The trade, transportation and utilities sector led job gains with 5,200 jobs, followed closely by professional and business services which gained 5,100 jobs. As tech giants like Apple, Facebook and Google bulk up their presence in the metro, workers from higher-cost locales on the East and West coasts will continue to be enticed to relocate to Austin. Moreover, the Army Futures Command's planned headquarters modernization will likely have a major influence on the economy over the next decade, as major contractors will want to locate here to be near the U.S. Army operation. The metro's growth potential is also backed by the expansion of Austin-Bergstrom International Airport.

- SXSW was the most profitable event for Austin's hospitality industry, which gained 2,800 positions. This year's edition surpassed Austin City Limits and registered the greatest economic impact in its 33-year history, depositing $360 million of revenue into the local economy.

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	185	16.9%	5,200	2.9%
60	Professional and Business Services	195	17.8%	5,100	2.7%
70	Leisure and Hospitality	133	12.2%	2,800	2.2%
90	Government	182	16.7%	2,600	1.5%
80	Other Services	48	4.4%	1,600	3.5%
50	Information	35	3.2%	1,200	3.6%
15	Mining, Logging and Construction	66	6.0%	1,000	1.5%
30	Manufacturing	62	5.7%	1,000	1.6%
55	Financial Activities	64	5.9%	500	0.8%
65	Education and Health Services	124	11.3%	-1,500	-1.2%

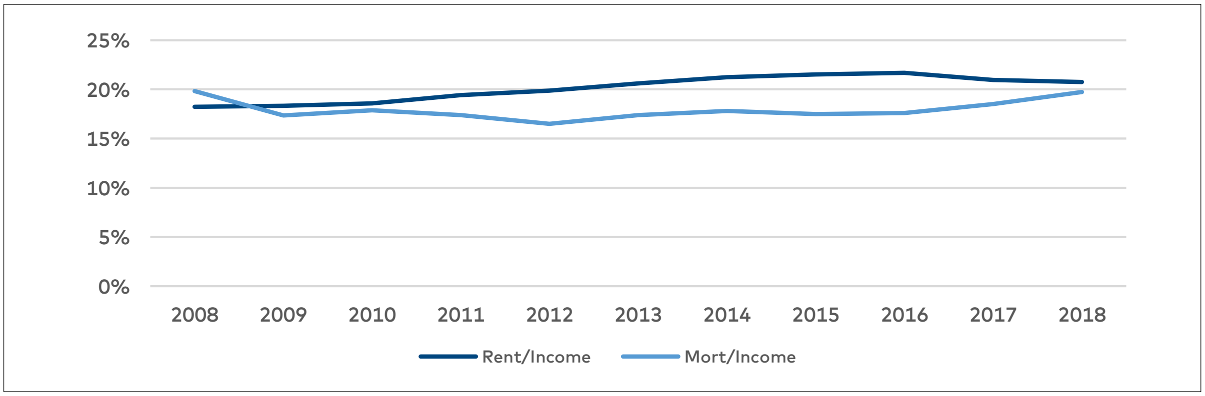
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

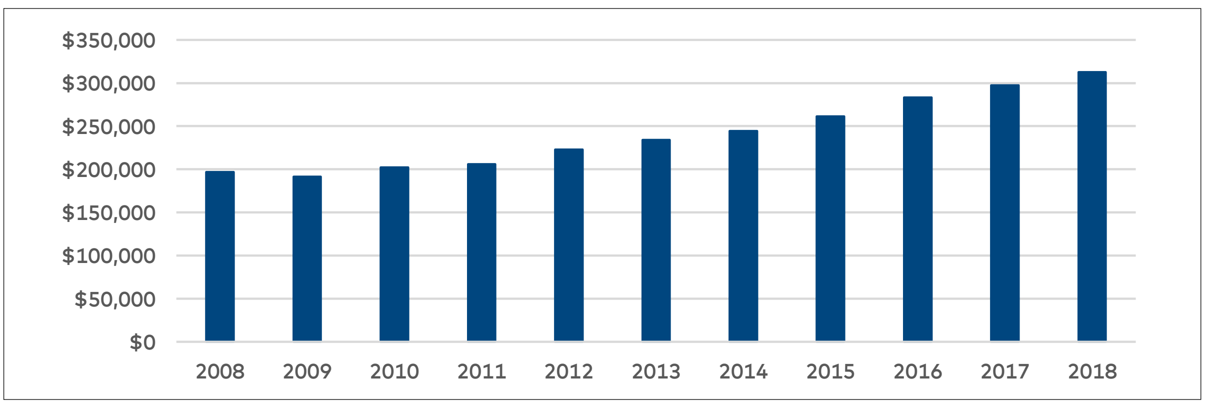
- Austin's median home price rose 5.2% to $312,735 in 2018 and although the figure has increased by 64% over the past decade, it remains well below prices in other tech-driven markets such as Seattle, San Francisco and Boston.
- Last year, the average rent accounted for 21% of the area median income, while the average mortgage encompassed 20%. As some 5,000 units are removed each year from the affordable housing stock through redevelopment, the city has approved a plan to build 60,000 affordable units by 2027. In October, 3,163 units in 16 fully affordable communities were underway in the metro.

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 marked a 2.5% year-over-year demographic expansion in 2018, more than four times the national rate.
- Texas' capital continues to be among the nation's fastest-growing metros, having gained 53,086 residents.

Austin vs. National Population

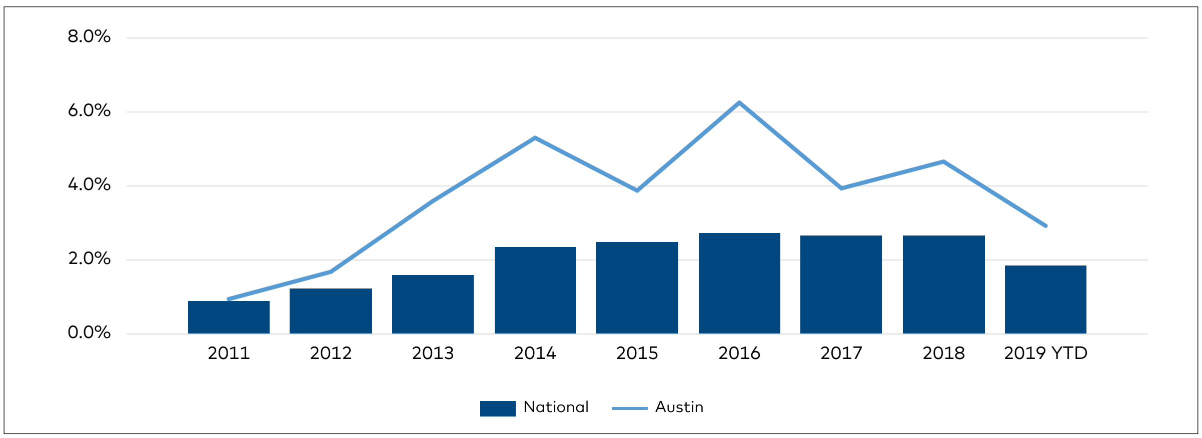
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Austin Metro	1,943,409	2,002,591	2,062,211	2,115,230	2,168,316

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

Supply

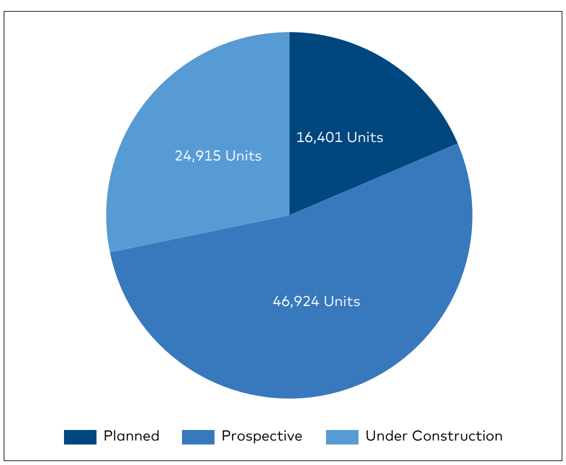
- Some 6,916 units came online in Austin in 2019 through October, all in Lifestyle assets. Strong demand for apartments kept developers busy as the figure accounts for 2.9% of total stock, 100 basis points above the national average. Should expected completion dates hold, this year's volume of deliveries will, at minimum, match last year's, with more than 3,700 units slated to come online by year's end. The 308-unit Citadel at Tech Ridge is set to open in December, a full year ahead of its initial anticipated completion.
- More than half of the development pipeline, which has just under 25,000 units underway, is concentrated in nine submarkets, each with more than 1,000 units under construction. Core and northern submarkets hold front ranks in construction activity, with Cedar Park (2,787 units), East Central Austin (2,353 units) and Downtown–North (1,908 units) leading the way. The metro also had more than 63,000 units in the planning and permitting stages as of October.
- The largest property delivered in Austin in the first 10 months of 2019 was Windsor Oak Hill, a 370-unit community owned by The Hanover Co., finalized in June and 97.8% occupied by October.

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



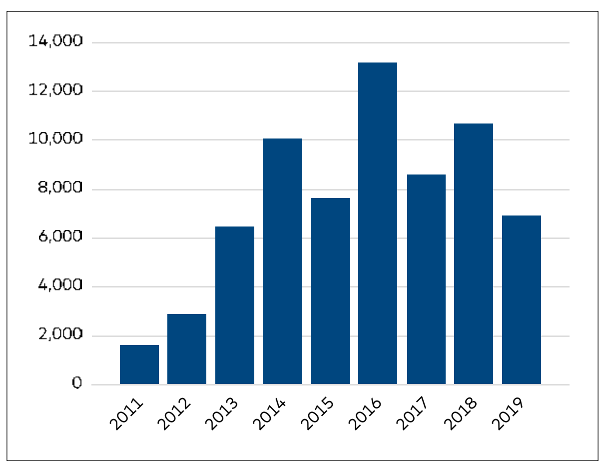
Source: YardiMatrix

Development Pipeline (as of October 2019)



Source: YardiMatrix

Austin Completions (as of October 2019)



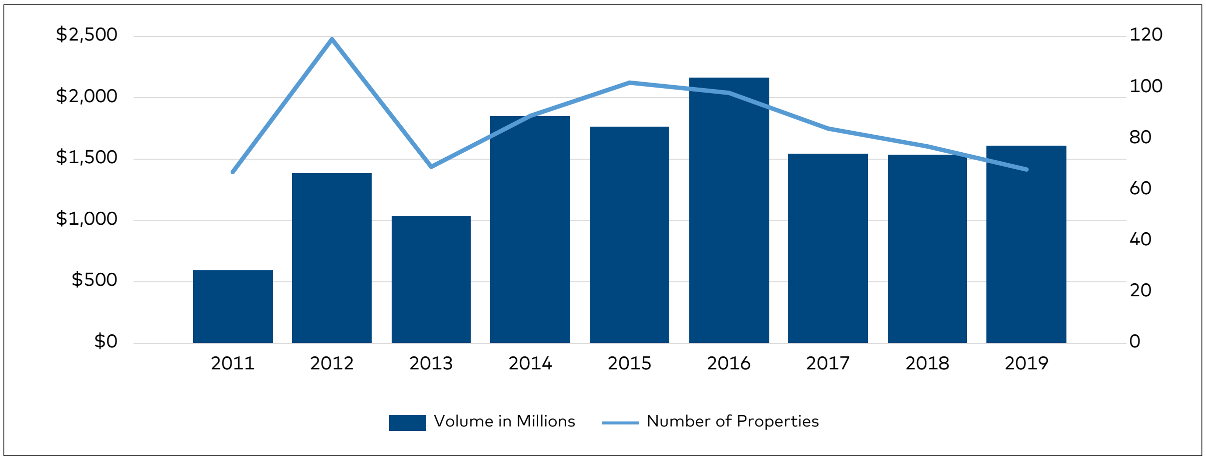
Source: YardiMatrix

Transactions

- Transaction volume for multifamily assets through the year's first 10 months had already surpassed 2018's total of $1.5 billion. Sixty-eight properties traded in Austin through October, totaling $1.6 billion in investment volume. The metro is highly appealing to investors and ranked first for overall real estate prospects among the 80 markets analyzed in the Emerging Trends in Real Estate 2020 forecast compiled by the Urban Land Institute and PwC.

- The average price per unit rose 14% year-over-year to $153,210, trailing the $162,889 national figure. For assets in the Lifestyle segment, the per-unit price rose 16.7% to $172,874, while RBN assets traded at an average price of $125,382 following a 9.9% increase. Of the 68 properties that changed hands in Austin in 2019 through October, 38 were in the Lifestyle segment. Turnbridge Equities' $73 million acquisition of the 160-unit Crescent in Downtown–North was one of the marquee deals early in the fourth quarter.

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



Source: YardiMatrix

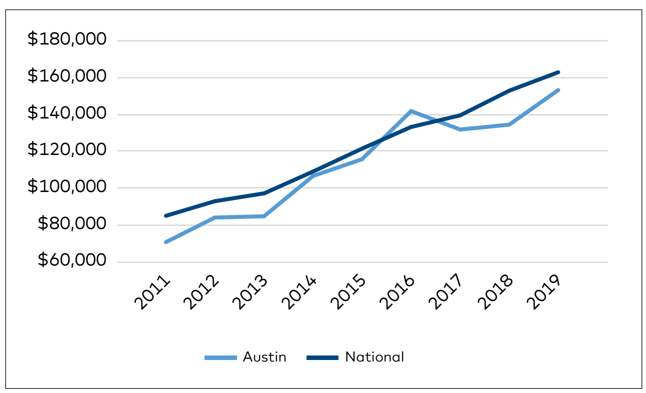
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Downtown–North	229
Cedar Park	189
Oak Hill	151
East Central Austin	150
St. Edwards Park	123
Sunset Valley	112
Downtown–South	98
Round Rock–East	97

Source: YardiMatrix

[1] From November 2018 to October 2019

Austin vs. National Sales Price per Unit



Source: YardiMatrix

Austin's Investment Landscape Heats Up

By Anca Gagiuc

Austin has seen exceptional performance over the last few years, with rent growth extending well beyond expectations despite robust deliveries. The city's diverse economy, which relies mainly on advanced industries with low volatility, has fueled its upswing. Investors have taken notice and started scrutinizing the metro's offerings.

Ari Rastegar, the CEO of Austin-based investment firm Rastegar Property Co., discusses investing in Texas' top-performing multifamily market, the potential downturn and the Opportunity Zones initiative.

Earlier this year, your company acquired two value-add communities in Austin. What criteria guided your choice?

We look for excellent locations, areas with strong organic rent growth and places people really want to be in. We have properties in Austin's highest rent corridors. Both our recent properties in Austin are in high-demand areas, so we renovated them and were able to bring rental rates up significantly.

Rastegar Property has also acquired land lots this year. What are your plans for those sites?

In Austin, we acquired two iconic lots. One is a 1.8-acre site on South First Street, just outside of downtown. Here we plan to develop mixed-use projects with residential and commercial components. We still have RFPs out to local architecture firms, and soon we will announce the outcome. The other site is a 1.2-acre lot on South Congress, south of Ben White, which we believe will be the highest metric growth corridor in Austin over the next five years.

In terms of housing affordability, Austin is progressively being compared with Palo Alto. Do you agree with this comparison?

I don't think it's a fair statement. California housing prices have become an epidemic, with a massive affordability shortage. With Austin, even though prices have surged, compared to other primary markets—like New York and San Francisco—we are still well below, with more affordable options.

What are the biggest challenges in the multifamily investment sector today, and how do you manage them?

Multifamily is a great hedge against inflation and a great way to protect capital. Many smart folks see things this way, so the investment landscape became pretty competitive. This late in the cycle, acquisition yields start to compress more than usual, so investors need to be knowledgeable about investment strategies and understand risk and growth potential.

Therefore, at this point in the cycle, we stayed away from core-plus and core assets and focused on value-add opportunities. Moreover, even if pricing is driven up a little by competition, if you have a strong value-add component you can create value by escalating rents, which then leads to a more IRR-driven approach.

(Read the complete interview on multihousingnews.com.)

News in the Metro

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Scion Student Communities Adds MUZE to Its Portfolio

The property was completed in August and is located in the capital's West Campus neighborhood.

Omninet Capital Sells 200-Unit Asset

Berkadia secured a $15 million Fannie Mae acquisition loan for the buyer, One Real Estate Investment.

Luxury Community To Deliver Ahead of Schedule

The 308-unit Citadel at Tech Ridge will open to residents in December this year.

Co-Living Brand QUARTERS Enters Austin Market

The co-living development, slated for completion in spring 2021, will rise five stories high with a total of 120 units.

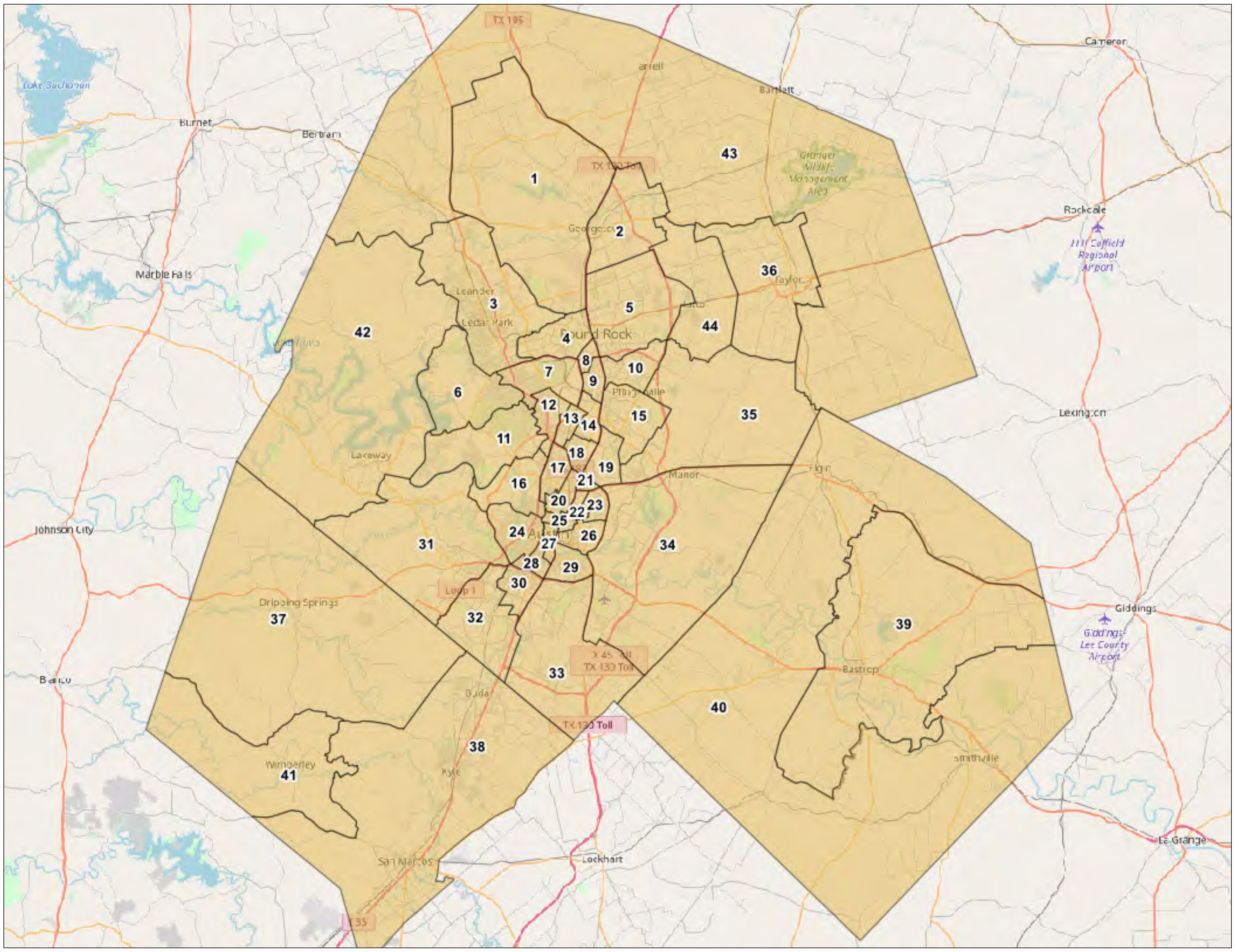
JV Acquires Suburban Property

Anatole at Westinghouse features 250 units and is located within the metro's sprawling Georgetown neighborhood.

Bellwether Secures $80M Financing

The loans were used to create, support and preserve three affordable communities in Austin and Port Arthur.

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.

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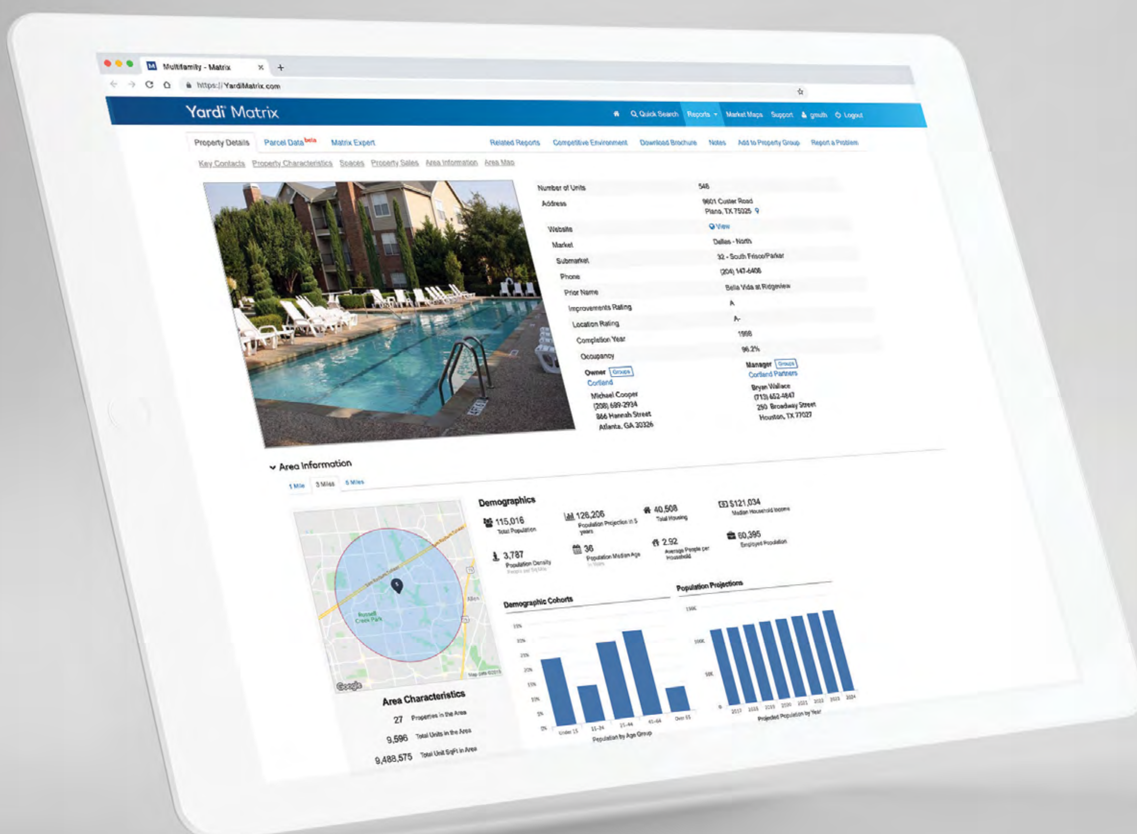

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