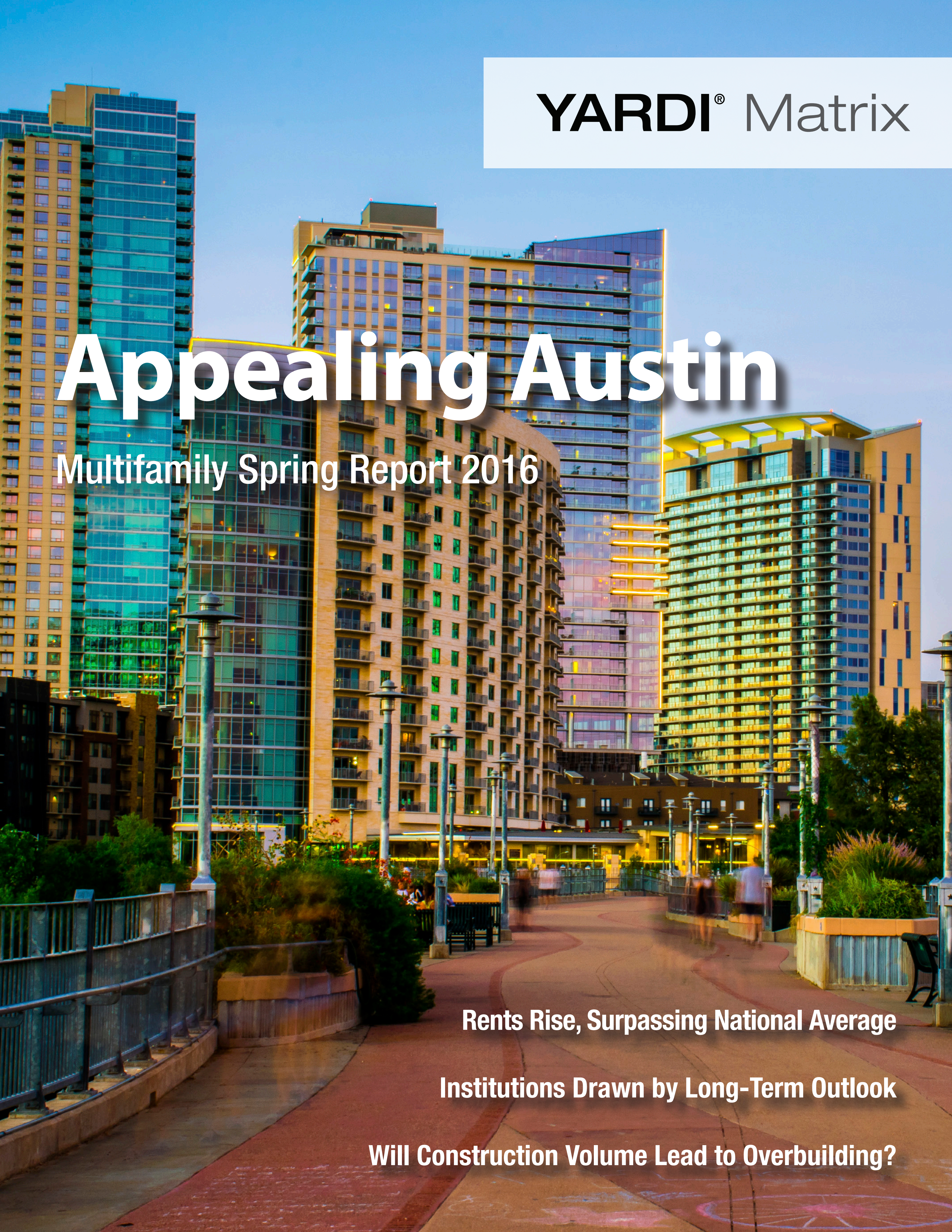
YARDI® Matrix



Appealing Austin

Multifamily Spring Report 2016

Rents Rise, Surpassing National Average

Institutions Drawn by Long-Term Outlook

Will Construction Volume Lead to Overbuilding?

Market Analysis

Spring 2016

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Austin's Strong Growth

Austin's steady economic and multifamily sector growth continues unabated, although the heavy supply pipeline is leading to fears about overdevelopment. The metro is at the top of many "best of" lists that rank potential growth and livability. A technology hub, it draws highly educated and high-income young adults, which has helped to boost apartment demand and rents.

Employment was up 3.7% in the year through January 2016, with job creation driven by the tech and education sectors. For example, Apple is expanding its local footprint with a Northwest Austin campus totaling 1.1 million square feet that will employ around 7,000 workers. The facility is slated for completion in 2017. Oracle also presented plans to construct a next-generation technology campus that will trigger an expansion of its Austin team by more than 50% over the next few years. The firm is planning to purchase housing to ensure employees have somewhere to live that is convenient and affordable.

Good news for apartment owners is that roughly one-third of the metro's 2 million residents are in the 20- to 34-year-old prime renter cohort. Rent growth was up to 7% year-over-year in the first quarter, and we project strong increases of 5.8% in 2016. However, growth will be moderated by the construction pipeline. More than 15,000 units are under construction, and nearly 11,000 are in the planning stages.

Recent Austin Transactions

The 704

City: Austin
Buyer: CWS Capital Partners
Purchase Price: $69 MM
Price per Unit: $183,069

RiverView

City: Austin
Buyer: Berkshire Property Advisors
Purchase Price: $60 MM
Price per Unit: $197,347

Aura 33Hundred

City: Wells Branch, Texas
Buyer: Strata Equity
Purchase Price: $53 MM
Price per Unit: $151,341

Bexley at Anderson Mill

City: Austin
Buyer: Weinstein Properties
Purchase Price: $51 MM
Price per Unit: $128,502

On the cover: Photo by RoschetzkyIstockPhoto/iStockphoto.com

Rent Trends

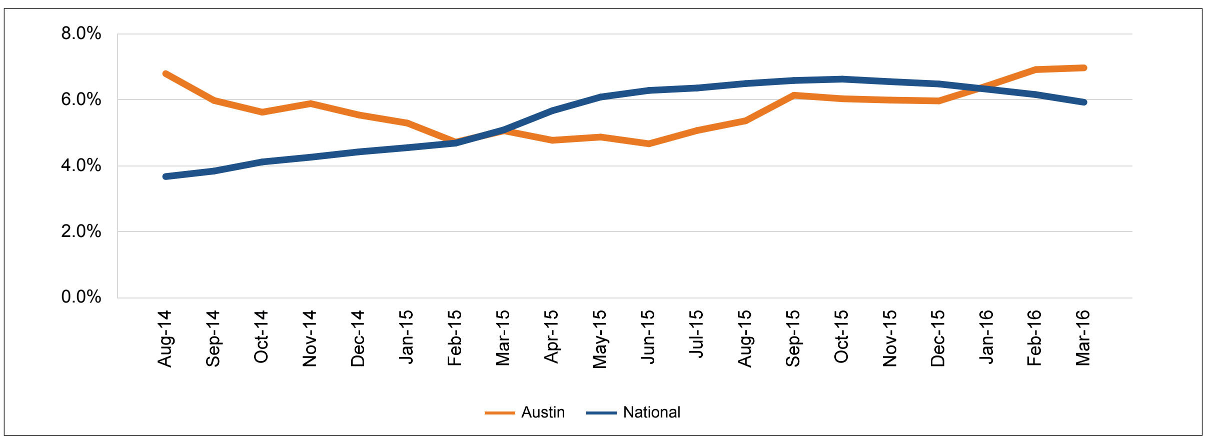
- Rent growth in Austin continues to be strong due to favorable economic conditions and steadily rising population. According to Yardi Matrix data, the average rent in the metro rose 7% year-over-year through March, outpacing the 5.7% national average. The average rent increased to $1,092, an all-time high for the metro, slightly behind the $1,181 national average.

- Gains were led by the working class Renter-by-Necessity segment, which grew to $975, up 7.6% from March 2015's $900. The high cost of lower-end units signals the problem of affordability among lower-income and middle-class residents, as well as students and senior citizens. The higher-end Lifestyle segment is strengthening as well, with the rate rising 6.2% to $1,196.

- The submarkets with the highest rent gains were St. Edwards Park (6.3%), Walnut Forest (6.2%), Pleasant Hill – East (5.5%), Wells Branch (5.4%) and Bastrop (5.2%).

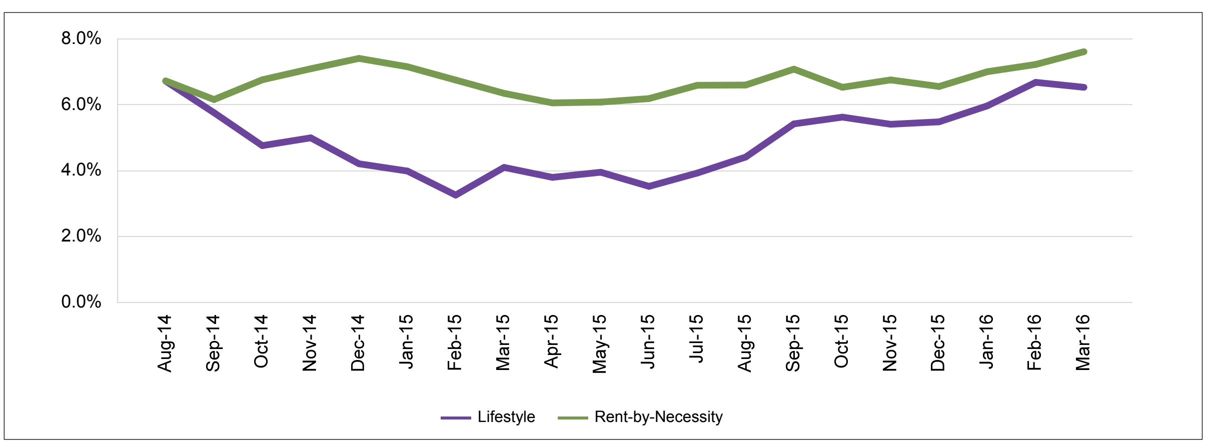
- While Austin appeals to Millennials because there are jobs to go with trendy neighborhoods and lifestyle options, the metro also attracts Boomers, which helps to support the growth in apartment demand. As a result, even with the heavy development pipeline, Yardi Matrix forecasts 5.8% growth in 2016.

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

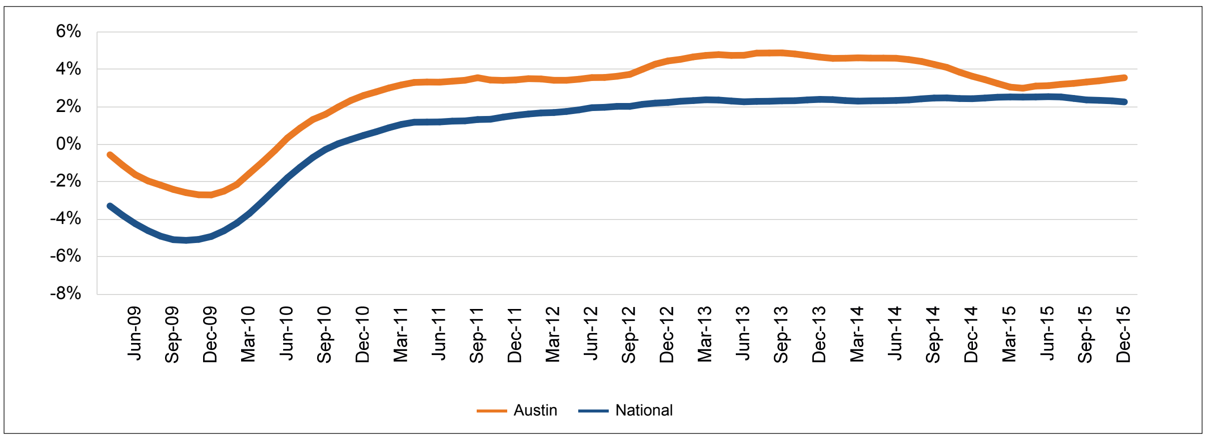
- Austin continues to be one of the fastest-growing metros in the country, led by technology, education, health care and tourism. The capital city added 34,900 jobs in the year ending in January 2016, a growth rate of 3.7%, well above the 2.2% national rate. Job growth was led by professional and business services (13,200) due to the expansion of local operations of large companies—including Apple, Oracle, Facebook and Samsung—and firms that provide services such as administration, accounting and legal.

- Leisure and hospitality added 8,100 jobs, as the metro has become a growing destination for business conferences and festivals such as South By Southwest, Austin City Limits and race car events like the Formula 1 U.S. Grand Prix at the Circuit of The Americas.

- Boosted by the burgeoning commercial and residential development, the mining, logging and construction segment added 4,200 jobs. Unlike some of its peer markets in the Lone Star state, Austin has relatively few energy-related jobs, so it has not been hit hard by falling oil prices.

- The trade, transportation and utilities sector, which added 3,800 jobs, has been boosted in recent years by the growth in alternative energy solutions. Current market dynamics point to a sustained growth in the sector.

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	165	17.2%	13,200	8.7%
70	Leisure and Hospitality	114	11.8%	8,100	7.7%
15	Mining, Logging and Construction	55	5.7%	4,200	8.3%
40	Trade, Transportation and Utilities	168	17.4%	3,800	2.3%
65	Education and Health Services	112	11.6%	2,500	2.3%
55	Financial Activities	54	5.6%	1,700	3.2%
90	Government	172	17.8%	1,300	0.8%
80	Other Services	41	4.3%	1,200	3.0%
50	Information	26	2.7%	500	1.9%
30	Manufacturing	56	5.8%	-1,600	-2.8%

Sources: YardiMatrix, Bureau of Labor Statistics

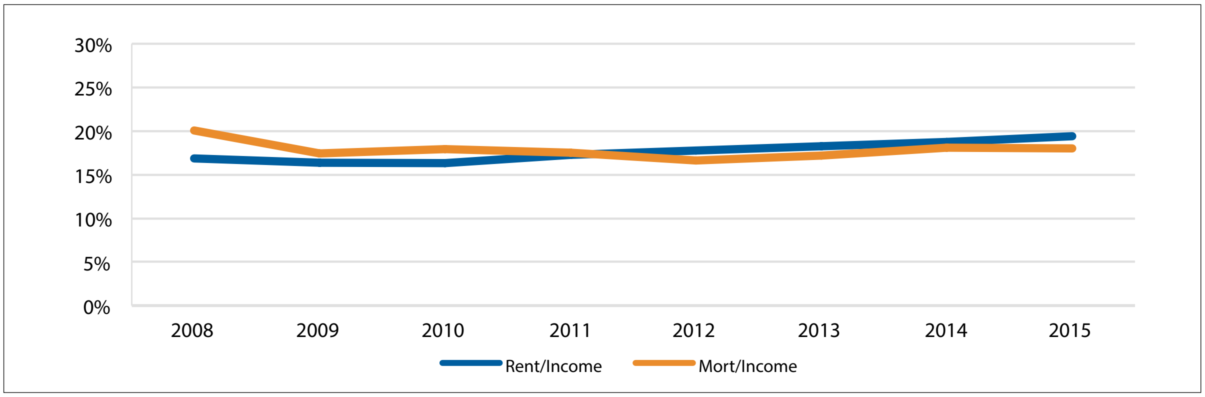
Demographics

Affordability

- The rise in housing costs has made Austin less affordable in recent years, but the increase is somewhat alleviated by the steady increase in the median annual income, which reached $65,000 in 2015. The average rent as a percentage of median income is about 19%, while the average mortgage as a percentage of median income is not much different at 18%.

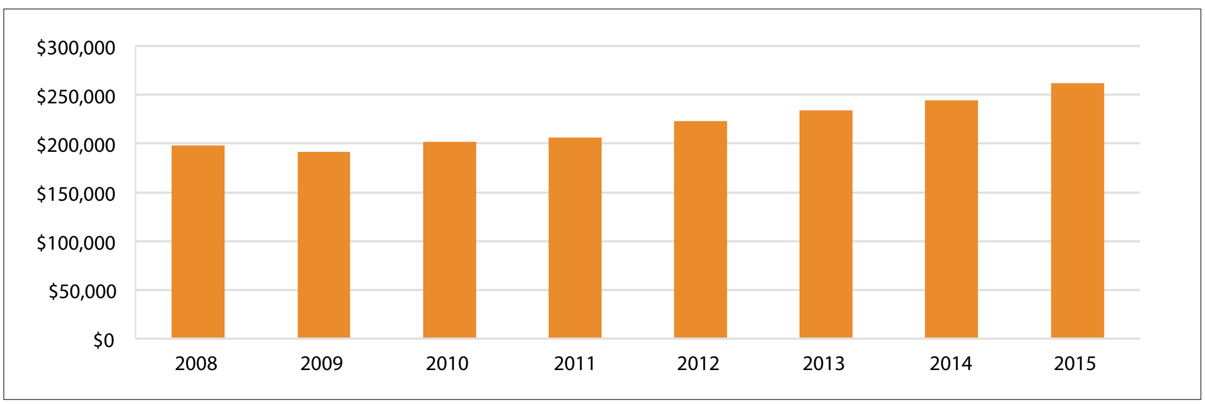
- The median home value grew to $261,975, another all-time high for the metro, and has been on an upward trend since the $191,674 trough in 2009. The rapid growth in home prices has led to concerns that the metro is vulnerable to a downturn.

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 experienced a 13.2 percent increase in population between 2010 and 2014.

- One-third of the metro's two million residents are in the prime renter age cohort of 20-34.

Austin vs. National Population

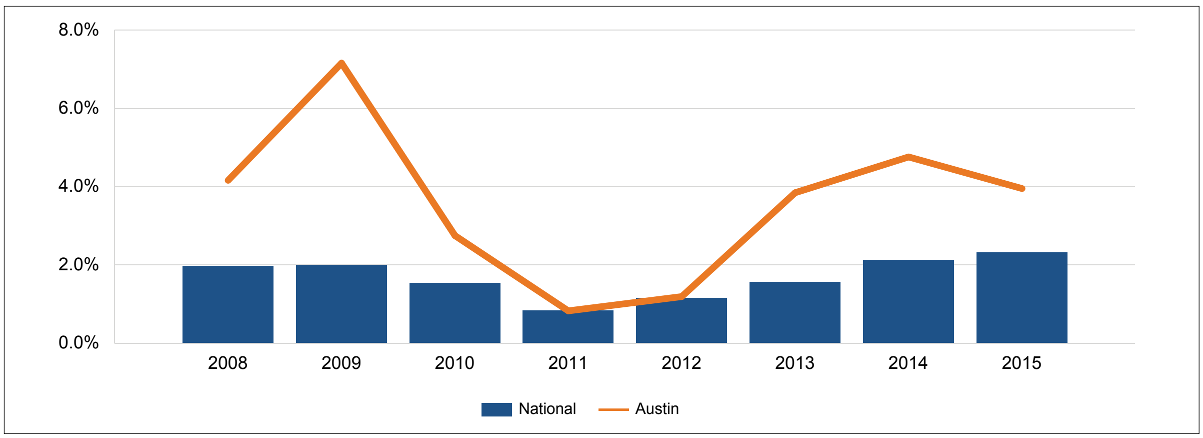
	2010	2011	2012	2013	2014
National	309,347,057	311,721,632	314,112,078	316,497,531	318,857,056
Austin	1,727,743	1,782,089	1,836,149	1,885,803	1,943,299

Source: U.S. Census

Supply

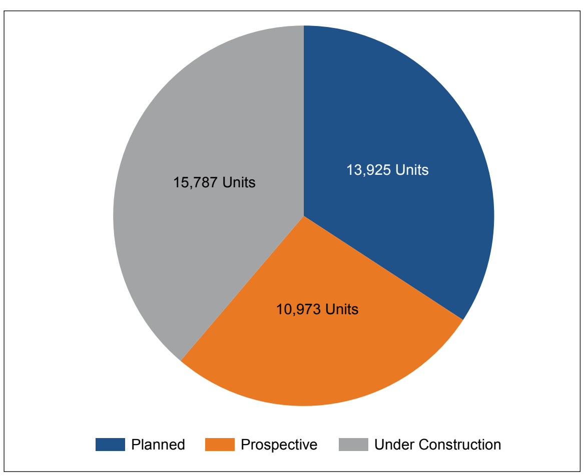
- Multifamily development in Austin is robust, with 7,750 units coming online during the past year. The new supply added 4 percent to stock, nearly double the 2 percent national average.
- Given that the number of new construction permits rose again in 2015, the level of new multifamily supply is expected to remain elevated over the next few years. More than 40,000 units are currently in some stages of development, including some 15,000 that are under construction. This points toward a continued surge in inventory expansion for the remainder of the cycle. Even though the metro's population is growing rapidly, there are concerns that the development pipeline will overshoot demand, prompting vacancy rates to rise and rent growth to slow in future years.
- Four submarkets have more than 1,000 units under construction—Oak Hill (1,756), Cedar Park (1,647), Downtown – North (1,230) and Pleasant Hill – West (1,022)—followed by West End with 997 units. Large projects coming online this year are the 444-unit Pearl Lantana in Oak Hill, the 442-unit Lamar Union in West End, the 440-unit Northshore Austin in Downtown – North, the 415-unit The Michael in Cedar Park and the 352-unit Sur 512 in Pleasant Hill – West.

Austin vs. National Completions as a Percentage of Total Stock (as of March 2016)



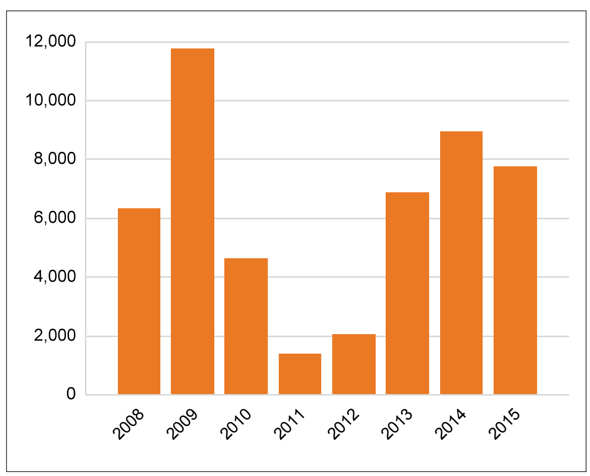
Source: YardiMatrix

Development Pipeline (as of March 2016)



Source: YardiMatrix

Austin Completions (as of March 2016)

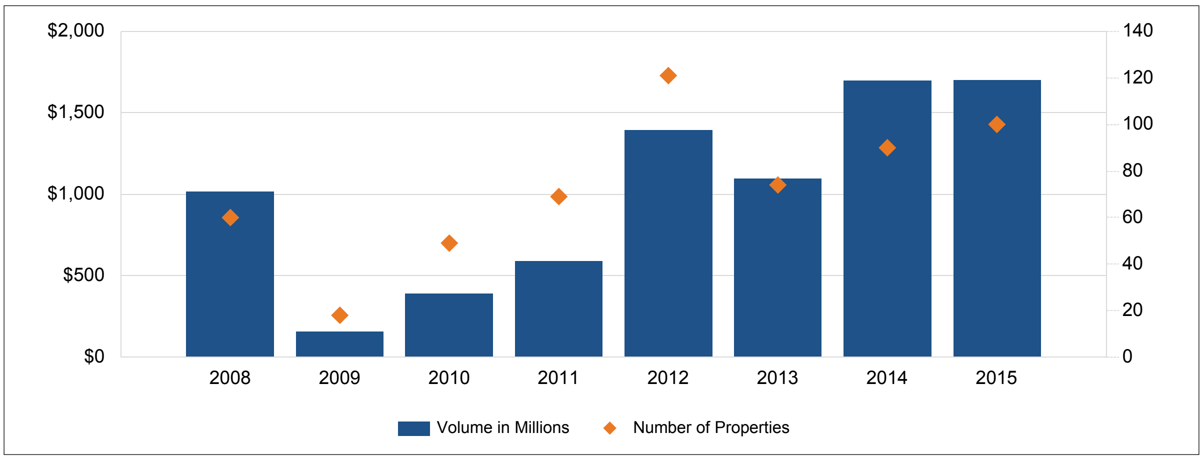


Source: YardiMatrix

Transactions

- Demand for assets in Austin continues to be robust, and $1.7 billion worth of properties have traded in each of the past two years. The metro is growing as a destination for institutional investors, which are drawn to the prospects for growth over the long term.
- Initial yields in the high-5% to low-6% range for apartments demonstrate that investors see Austin as a stable market despite its relatively small size. Unit prices have increased to an average of $111,103 in 2015, nearly double the $57,705 in 2011 and not far behind the national average of $117,251.
- The largest transaction was CWS Capital Partners' $69 million acquisition of The 704 in Downtown – South. The most active submarkets in the year ending in March 2016 have been East Central Austin ($117 million) and Dessau ($114 million).

Austin Sales Volume and Number of Properties Sold (as of March 2016)



Source: YardiMatrix

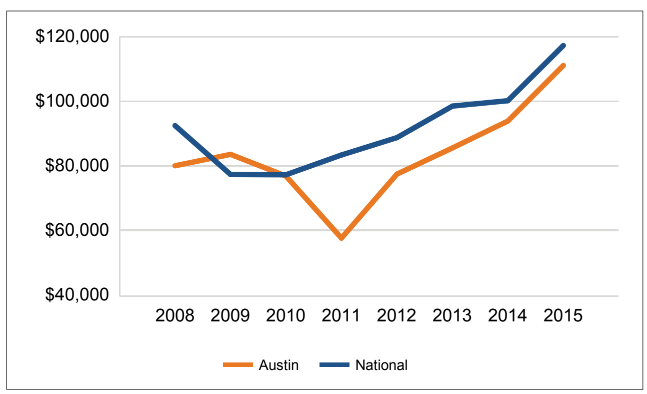
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
East Central Austin	117
Dessau	114
San Marcos/Kyle	86
IBM area	86
Downtown - South	79
Jollyville - North	78
Cedar Park	70
Pleasant Hill - West	68

Source: YardiMatrix

[1] From April 2015 to March 2016

Austin vs. National Sales Price per Unit



Source: YardiMatrix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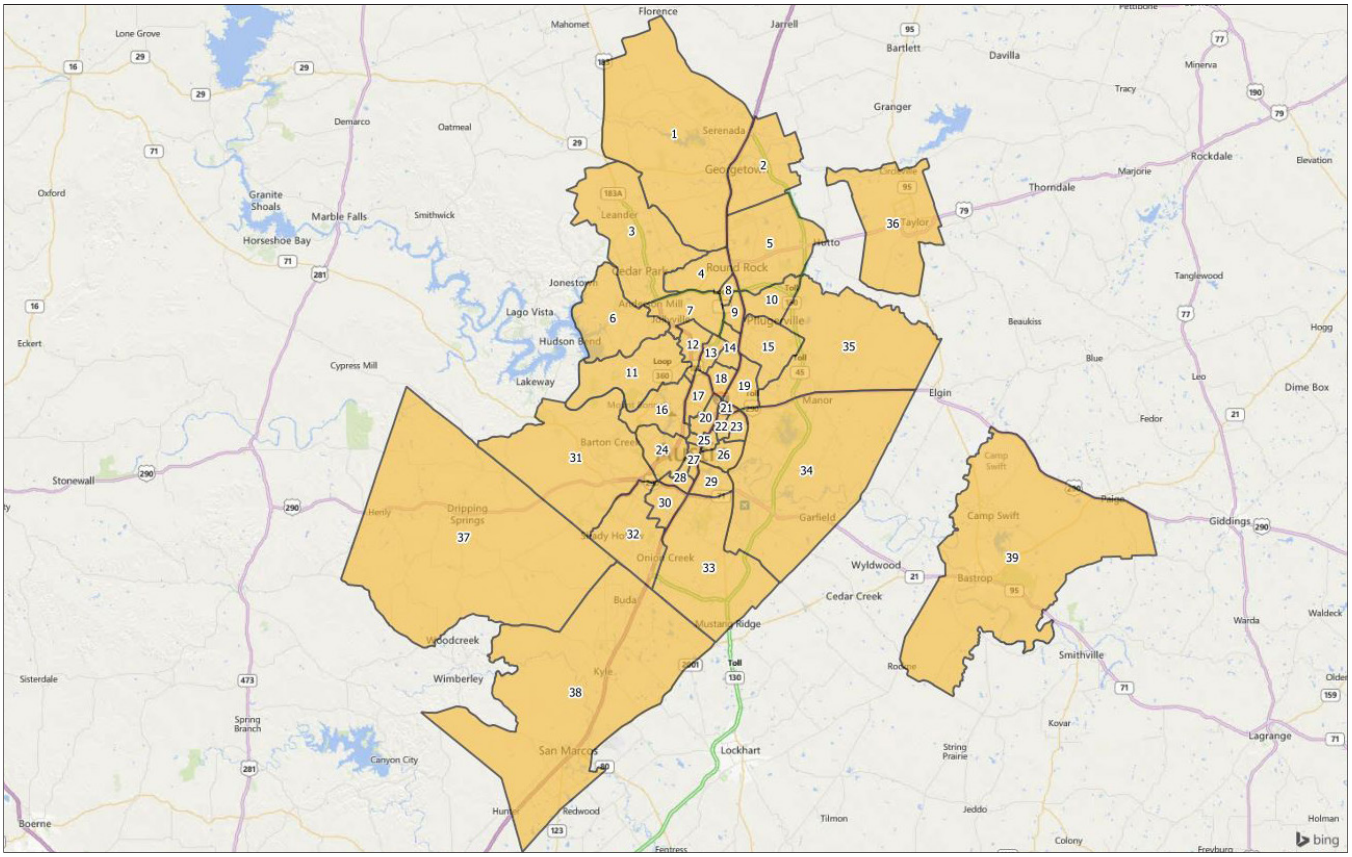
Austin Submarkets



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 Boulevard
17	Abercrombie
18	Eubank Acres - South
19	Walnut Forest
20	Hyde Park

Area #	Submarket
21	St. Johns Park
22	Capital Plaza
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

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.