Yardi® Matrix

Demand Leads The Way in Austin

Multifamily Report Summer 2019

Rent Growth Outpaces Nation

Employment Activity Softens

Deliveries Poised for New Cycle Peak

Market Analysis
Summer 2019

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Job Gains Softer But Still Above Average

Although Austin has seen a downshift in employment growth, the multifamily market in the metro continues its ascent. Rent growth in Texas' capital is among the highest in the country, up 4.9% year-over-year through June to $1,401, only $64 below the U.S. average. While Austin is still an affordable market compared to neighboring metros, its sustained job and population growth is progressively impacting its moderate-income residents. Even so, the occupancy rate in stabilized properties rose 20 basis points year-over-year to 94.5% as of May.

Employment growth occurred across all sectors, with employers adding 25,400 jobs in the 12 months ending in May, up 2.3% and more than double the 1.6% national figure. Professional and business services led the way with the addition of 8,500 jobs, and corporate relocations and expansions in the metro indicate sustained expansion. As of June, Austin had more than 7 million square feet of office space under construction.

Some $666 million in multifamily assets traded during the year's first half. The per-unit price rose 19.3% over 2018's average to $160,480, surpassing the national amount for the second time this cycle. Some 3,400 units were delivered by mid-year. With 13,545 units slated for completion in 2019, a new cycle peak for deliveries is in view. We expect rents to rise 3.7% in 2019.

Recent Austin Transactions

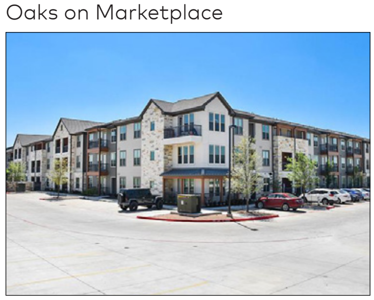
Camden Rainey Street

City: Austin, Texas
Buyer: Camden Property Trust
Purchase Price: $120 MM
Price per Unit: $369,325

Bexley Round Rock

City: Round Rock, Texas
Buyer: Weinstein Properties
Purchase Price: $56 MM
Price per Unit: $169,697

Oaks on Marketplace



City: Kyle, Texas
Buyer: Strategic Property Investment
Purchase Price: $36 MM
Price per Unit: $142,126

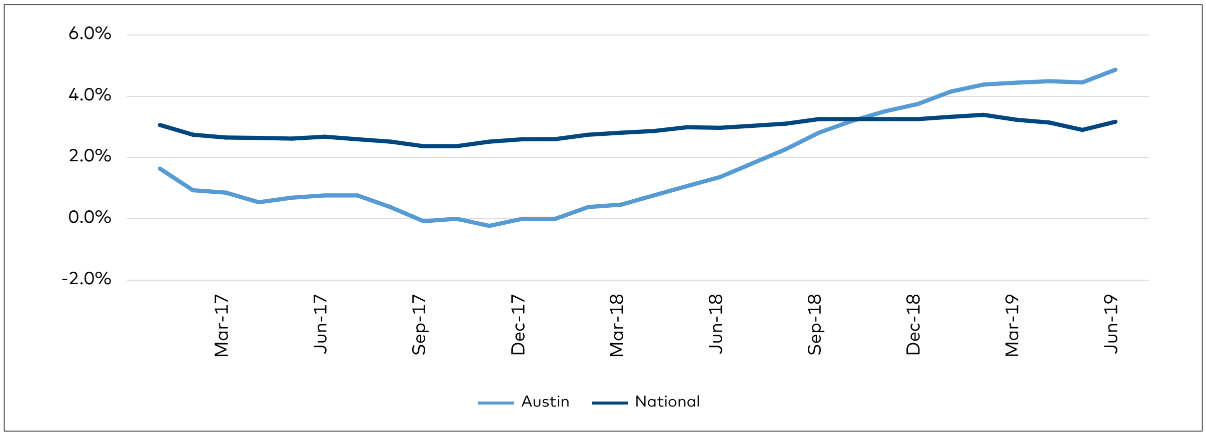
Enclave at Water's Edge

City: Austin, Texas
Buyer: Ledic Realty Co.
Purchase Price: $25 MM
Price per Unit: $133,333

Rent Trends

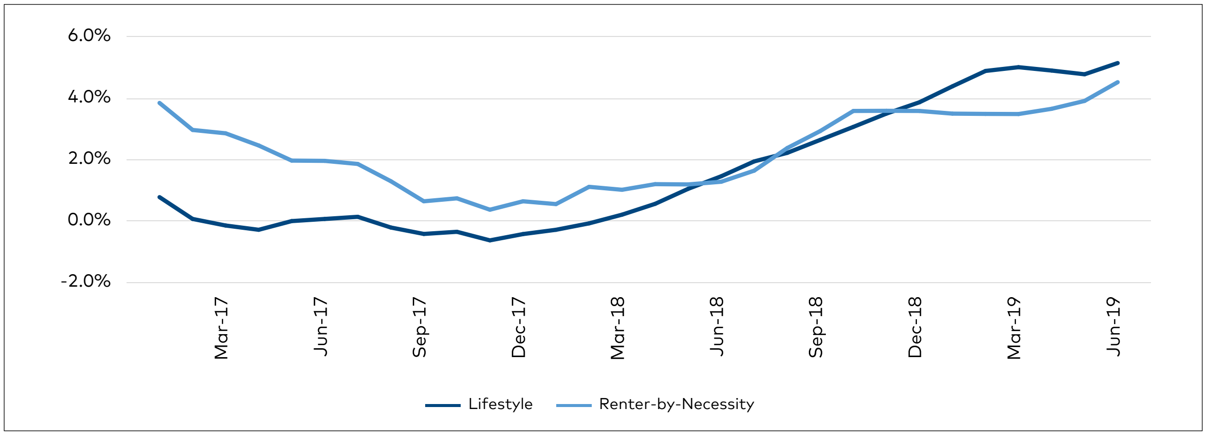
- Rents rose 4.9% year-over-year through June to $1,401, well above the 3.3% national average. Since October 2018, when Austin's rate of growth surpassed the nation's, the spread between U.S. average and Austin rents has been shrinking, down to $64 as of June. Despite consistent completions and one of the most robust new development pipelines in the country, Austin's rate increase climbed to fourth position in rent growth among the country's top metros, behind Sacramento, Phoenix and Las Vegas.
- Lifestyle rents led growth, up 5.1% year-over-year to an average of $1,533. Working-class Renter-by-Necessity rates were up 4.5% to $1,155 during the same timeframe. Many potential homebuyers have been sidelined due to the high barrier for homeownership, further bolstering the occupancy rate, which grew by 20 basis points to 94.5% as of May—up 40 basis points to 94.8% for RBN assets and holding at 94.3% for Lifestyle units.
- Only three submarkets in Austin posted rents below the $1,000 mark: Taylor (up 5.6% to $940), St. Johns Park (up 0.8% to $979) and Eubank Acres–South (up 4.0% to $986). At the other end of the spectrum, the most elevated rents were in Downtown–North (up 4.0% to $2,542) and University of Texas (up 2.9% to $2,274). We expect rents to advance 3.7% 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)

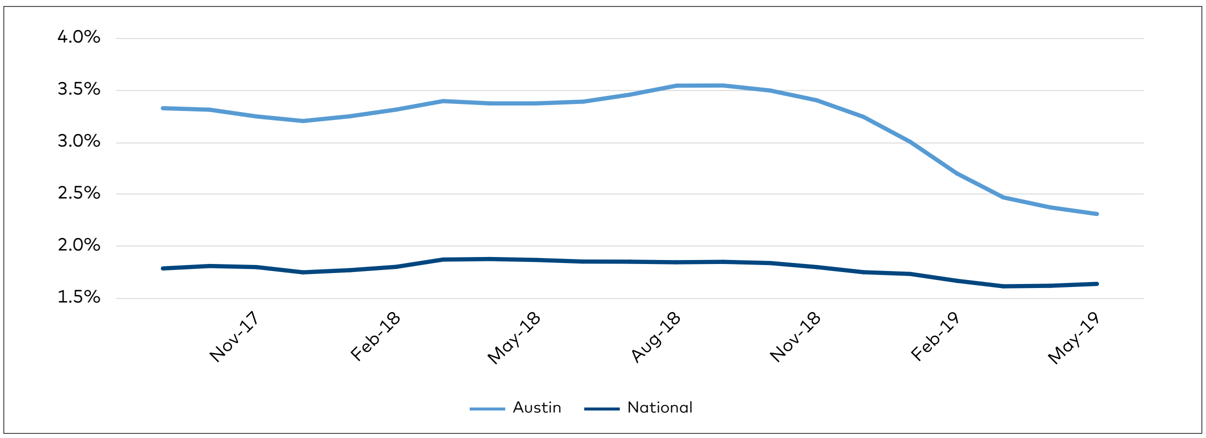


Source: YardiMatrix

Economic Snapshot

- After several years of sustained growth, Austin has shifted down a gear in employment growth. The metro gained 25,400 jobs in the 12 months ending in May, a 2.3% uptick and more than double the 1.6% U.S. rate. Robust in-migration has put pressure on the metro's education sector, with schools facing shortages. The supplementation of jobs for teachers, nurses and retail trade workers contributed to Austin's low unemployment rate, which dropped to 2.3% as of April.
- All sectors exhibited growth, with professional and business services leading gains by adding 8,500 positions. Expansions announced by Apple (5,000 jobs over the next few years), Amazon (800 positions in engineering and cloud computing) and Google, which recently leased the entire 35-story Block 185 tower currently underway in downtown, will continue to strengthen the sector in the coming years. Overall, office-using sectors accounted for half of the metro's employment growth, gaining 12,700 jobs.
- Trade, transportation and utilities added 3,800 jobs in the year ending in May, but infrastructure is at a turning point in Texas and has entered an era of repair. To alleviate traffic congestion through the capital city, the Texas DOT has proposed an $8 billion plan for Interstate 35 that would see the addition of lanes, underground tunnels and the elimination of upper level bridges.

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	193	17.6%	8,500	4.6%
40	Trade, Transportation and Utilities	181	16.5%	3,800	2.1%
15	Mining, Logging and Construction	67	6.1%	2,700	4.2%
55	Financial Activities	65	5.9%	2,600	4.2%
70	Leisure and Hospitality	134	12.2%	2,300	1.7%
65	Education and Health Services	126	11.5%	1,800	1.4%
50	Information	35	3.2%	1,600	4.9%
30	Manufacturing	61	5.6%	1,000	1.7%
80	Other Services	47	4.3%	600	1.3%
90	Government	187	17.1%	500	0.3%

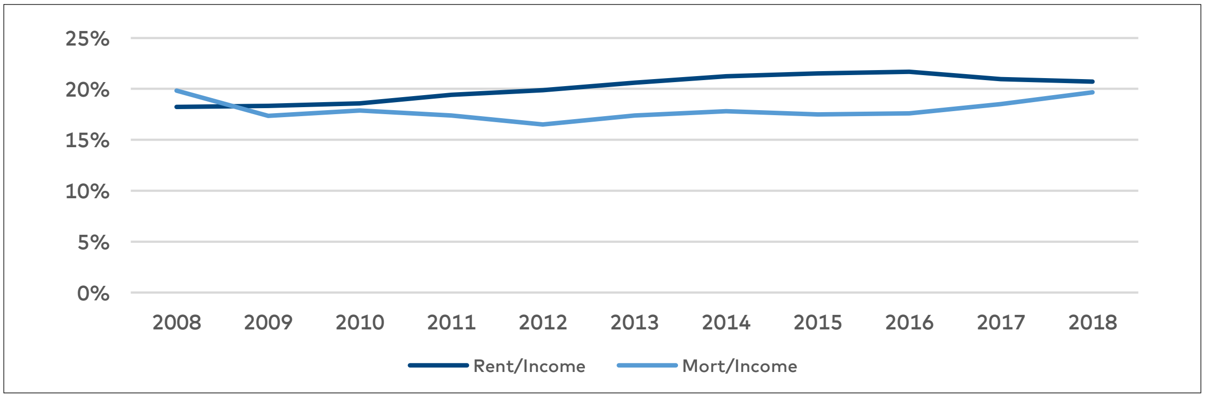
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

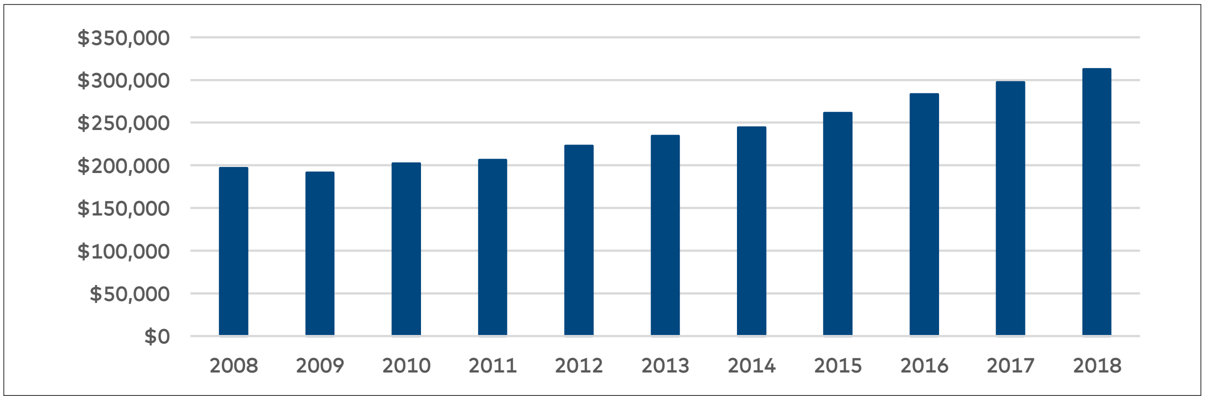
- The median home price in Austin rose 5.2% in 2018 to $312,727. Renting and owning account for 21% and 20% of the area median income. The city's dramatic job and population growth are progressively impacting the metro's lower-income residents. More than 5,000 units are being removed each year from the workforce affordable housing stock through redevelopment.
- A new project was approved by the local authorities consisting of the addition of 60,000 affordable units by 2027. The plan is spread across 10 districts and it focuses on areas with easy access to transportation.

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 state capital's population expanded 2.7% in 2017 when it added 55,000 residents.
- Texas' population continues to grow at a strong rate, with four cities in the state recording some of the largest gains in the country.

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

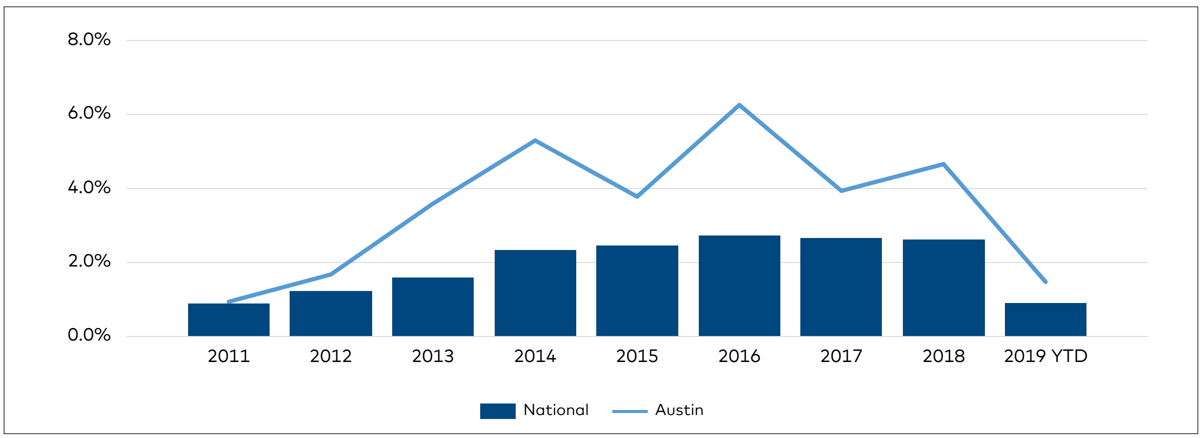
Supply

- Some 3,400 units were delivered in Austin this year through June, 1.5% of total stock and 60 basis points above the U.S. rate. All of the properties delivered by mid-year catered to Lifestyle renters. With rental demand holding strong in the metro, an estimated 13,545 units are scheduled for completion in 2019, representing 4.9% of total stock. Austin is on track for a new cycle peak for deliveries, outperforming 2016 when 13,160 units came online.

- Eight submarkets each had more than 1,000 units underway as of June, accounting for more than half of the overall development pipeline. Downtown Austin and the northern region are especially attractive to developers as East Central Austin (2,464 units) and Cedar Park (2,419 units) led construction activity, followed by Dessau with 1,786 units. The metro also had nearly 63,900 units in the planning and permitting stages as of June.

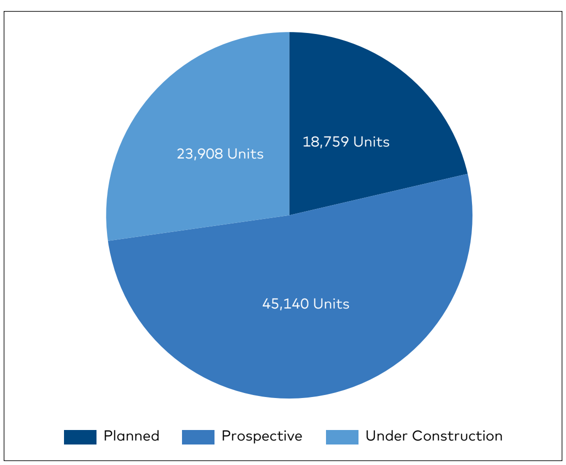
- One of the largest projects underway in the market is the 372-unit Flatiron Domain, scheduled for completion by year's end in the IBM Area submarket. The StreetLights Residential and Stonelake Capital Partners-owned property will include 23 affordable units.

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



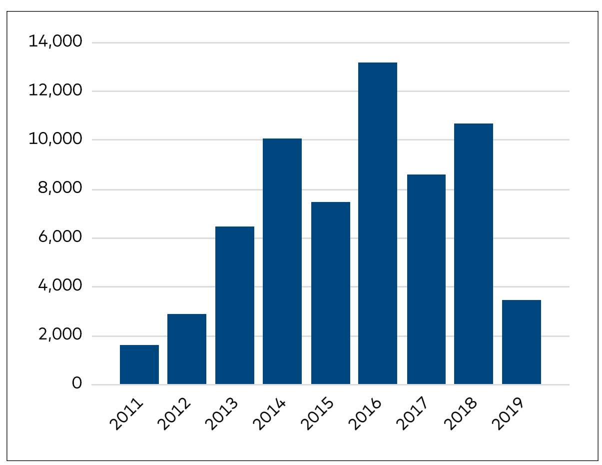
Source: YardiMatrix

Development Pipeline (as of June 2019)



Source: YardiMatrix

Austin Completions (as of June 2019)

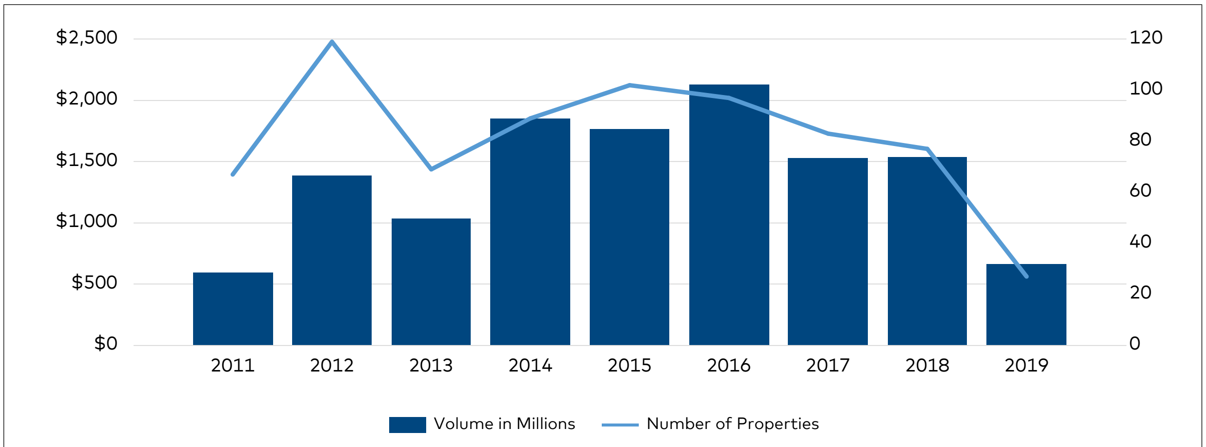


Source: YardiMatrix

Transactions

- Multifamily deals in Austin totaled $666 million in the first half of the year. Of the 27 assets that traded, nearly two-thirds were in the Lifestyle segment, where acquisition yields sat in the 4.5%-5.0% range. Investors largely continued to focus on the metro's core, while the northern quadrant also commanded a great deal of capital.
- The per-unit price for the assets that changed ownership in 2019 rose a solid 19.3% over 2018's average figure to $160,480, surpassing the $157,028 national amount for the second time this cycle. The average price per unit for Lifestyle assets marked a 15.2% jump to $170,543, while RBN assets traded for an average price of $103,491, registering a 12.8% decrease. In the 12 months ending in June, transaction activity in Austin surpassed $1.5 billion, with nearly half the volume generated through deals from five submarkets.

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



Source: YardiMatrix

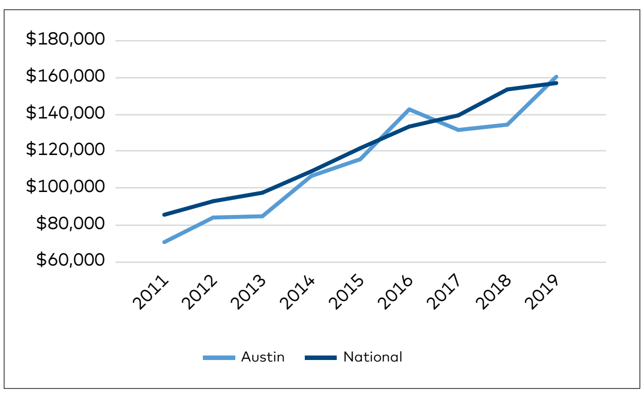
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Cedar Park	206
University of Texas	148
Round Rock–East	126
St. Edwards Park	123
Downtown–North	120
East Central Austin	115
San Marcos/Kyle	114
Far West Boulevard	89

Source: YardiMatrix

[1] From July 2018 to June 2019

Austin vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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CIM Group Completes Austin's Tallest Tower

Nicknamed the Jenga tower for its distinctive stacked design, the 58-story condo community is located downtown and houses more than 20,000 square feet of amenities.

CDT Forms JV To Buy 452-Unit Asset for $70M

The Bridge at Asher Apartments acquisition is the company's fourth investment with the Housing Authority of the City of Austin and its nonprofit affiliate, the Austin Affordable Housing Corp.

Alliance Residential Breaks Ground, Delivers Apartments

The Phoenix-based company is working on a new property near the Oracle campus and completed a community adjacent to The Domain.

Hunt Real Estate Capital Secures $55M Acquisition Loan

The community is part of a $311 million Texas portfolio acquired in April by American Landmark and Electra America.

Daniel Corp. Develops, Sells In South Austin

The company—which teamed up with CNL to construct the new project located off William Cannon Drive and adjacent to McKinney Falls State Park—sold a 13-building community to Bell Partners.

Trammell Crow Starts Work On Texas Apartments

The developer's residential arm, together with Principal Real Estate Investors, has broken ground on the final phase of Crestview Commons in the North Central submarket of Austin.

Executive Insight

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MULTI-HOUSING NEWS

Affordable Housing: Is Austin Becoming the Next Palo Alto?

By Anca Gagiuc

A strong demographic expansion has been occurring at a rapid pace, and if on the one hand it translates into job growth across the board, on the other it places the metro's core workforce into a deepening affordability crisis.

Affordable Central Texas President & CEO David Steinwedell and Dallas-based Carleton Residential Properties Founder, Managing Partner & CEO Printice Gary discussed the affordable crisis threatening Austin and to what extent the federal Opportunity Zone investment program can help ease the issue.

How would you describe Austin's multifamily market? How serious is the affordable housing crisis in the city?

Steinwedell: Austin's multifamily market is robust, dynamic and meeting the needs of the upper end of the market, and that is the challenge the city is facing. Job and population growth has been dramatic in the metro and the multifamily market has been significantly impacted by that growth as demonstrated by strong rental rate increases and new development activity. The unintended consequence of that growth is that the affordability challenge, previously felt at low and very low income levels, has now come to impact moderate-income families and individuals, Austin's workforce.

How does the federal Opportunity Zone investment program help ease the affordability crisis?

Gary: Opportunity Zone legislation was born from existing low-income census tract designations and, unlike the Low-Income Housing Tax Credit Program, it was not designed specifically to attract private capital for affordable housing development. OZ funds can make equity investments in any asset class located in the OZ. As for the creation of affordable housing in OZs, due to the high cost of new construction, it is unlikely that prevailing rents in the submarket could support the cost basis without subsidies. Regarding preservation, a core requirement is that OZ investments in real estate double the basis of the property within 30 months—substantial rehabilitation, indeed.

David Steinwedell *(left)* and Printice Gary *(right)*

What are your thoughts on rent control as an approach to address the affordability issue?

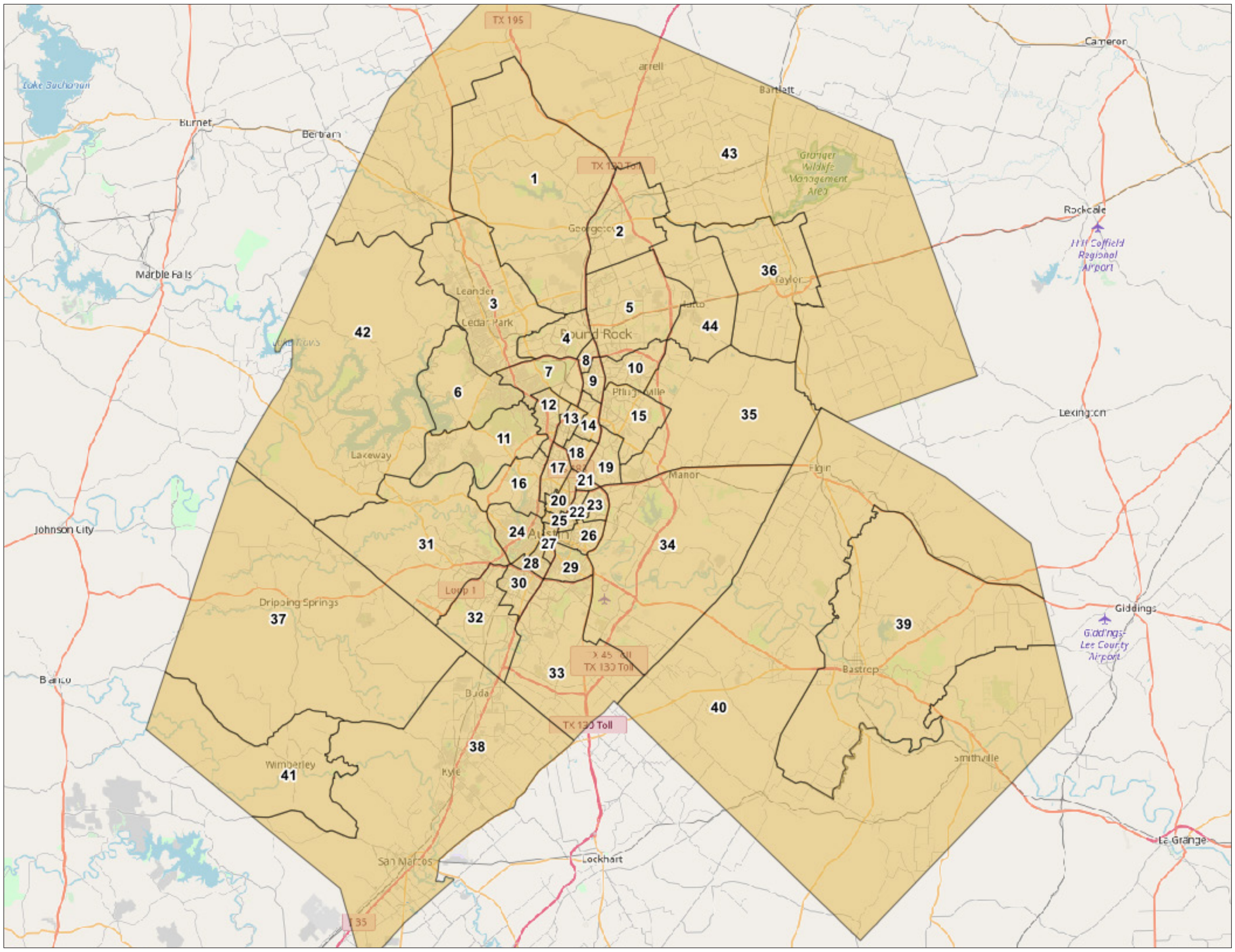
Gary: I have never considered rent control as an appropriate means to help cure the affordable housing crisis. The dynamics of the open marketplace tend to be pretty good and efficient indicators of the dimensions of the affordability gap in housing and while not enough, subsidy programs like LIHTC are in place to help mitigate this problem. But LIHTC does not address the affordable housing need beyond the 60 percent AMI threshold.

What is your investment strategy for 2019?

Steinwedell: In 2019, we seek to at least double the number of units in the portfolio and gain greater geographic diversity across the city of Austin. The fund has three properties in various stages of acquisition, with the hopes of identifying more prior to year-end. Our hope is to achieve a portfolio of 5,000 units in five years.

(Go to multihousingnews.com to read the complete interview.)

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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