MARKET REPORT | 2Q/2020

Austin Multifamily

Austin's Ability to Attract Companies Supports Market Outlook

Highlights

- The Austin multifamily market posted strong performance during the first half of 2020, despite economic volatility. Developers have continued to bring new units to the market, but absorption has been positive and is expected to gain momentum in the coming months.
- The local multifamily vacancy rate ended the second quarter at 5.9 percent, identical to the figure in the first quarter. Year over year, vacancy has ticked up just 10 basis points.
- Asking rents finished the second quarter at $1,314 per month, 2.8 percent higher than one year ago. Annual rent growth has averaged 4.9 percent during the past five years.
- The Austin investment market produced fairly steady results in the first half of the year. Sales velocity slowed with uncertainty in the greater economy, but fundamentals remained strong. Cap rates have averaged 4.9 percent, nearly identical to the average in 2019.

Q2 Snapshot	Austin Market
Market Fundamentals	
Vacancy	**5.9%**
- Year Over Year Change	**+10 bps**
Asking Rent	**$1,314**
- Year Over Year Change	**+2.8%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$155,400**
Cap Rates (Avg YTD)	**4.9%**
Construction Activity	
Units Under Construction	**10,592**
Units Delivered YTD	**3,583**

Austin Multifamily Market Overview

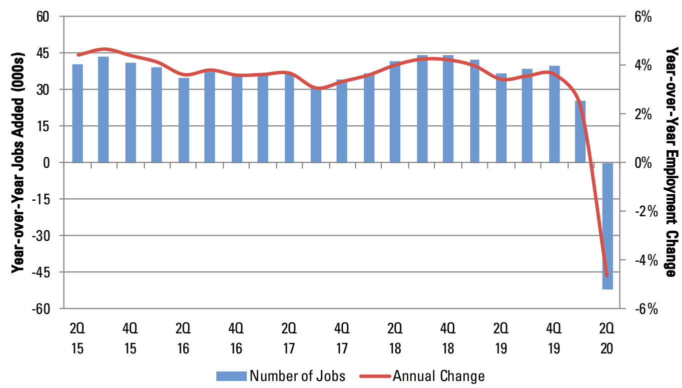
In recent years the Austin multifamily market has been one of the most reliable in the country, with the market supported by rapid population growth and significant employment expansion. While each market was hindered by the economic shutdown in March and April, Austin weathered the disruption and has begun to rebound quickly. The pace of job losses was less severe than cuts recorded at the national level, currently at 5.5%, down from the COVID-19 peak of 12.2%, and prominent companies such as Tesla, Apple, and Oracle are are expanding in the city. The trio are expected to hire more than 15,000 workers over the next four years.

The Austin investment market slowed in the second quarter, something that occurred in nearly every major market in the country as investors tried to assess the impact of the COVID-19 outbreak on property performance. While fewer properties have sold, pricing and cap rate trends have proven to be resilient. The average cap rate has remained below 5 percent thus far in 2020, nearly identical to the average from last year.

Employment

- Austin had been one of the country's strongest regions for employment prior to the COVID-19 shutdown, and the market is likely to rebound quickly. Year over year through the second quarter, employers have trimmed payrolls by 4.7 percent. Employers have already hired back 40 percent of the jobs that were temporarily cut during the shutdown.
- One sector that has continued to record rapid growth is financial activities, where employers have added more than 8,000 jobs in the past year, a gain of 12.3 percent. During the past five years, financial activities employment in Austin has spiked by more than 33 percent.
- The Austin area has been able to attract some of the highest-profile companies in recent years, a trend that is continuing. In July, electric car maker Tesla picked Austin as the site of a $1 billion Gigafactory. The factory will be on 2,000 acres about 15 minutes outside of Downtown Austin. Construction has already begun, and the company is expected to hire more than 5,000 workers over the next four years.
- **Forecast:** Employers in Austin have begun to bring back workers quickly. The market will likely record net job losses in 2020, but contraction should total about 1 percent of the total workforce, much more modest than in many markets.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

In July, electric car maker Tesla picked Austin as the site of a $1 billion Gigafactory

Vacancy

- Apartment vacancy in Austin has been mostly stable in recent quarters. The rate ended the second quarter at 5.9 percent, matching the figure from the first quarter. Year over year, vacancy has ticked up just 10 basis points.
- The inventory of Class A rentals has spiked in recent years, but demand has closely tracked supply growth. The Class A vacancy rate ended the second quarter at 6.8 percent, 20 basis points lower than the figure one year ago.
- Net absorption has been strong year to date but has not quite matched levels from the same period in 2019. During the first half of 2020, net absorption totaled nearly 2,900 units, 8 percent lower than in the first half of last year.
- **Forecast:** With deliveries of new units expected to accelerate in the second half of the year, the local vacancy rate is expected to inch higher. Vacancy in Austin is forecast to end 2020 at 6.3 percent, similar to levels from a few years ago.

Vacancy Trends

Sources: NorthMarq, Reis

While the vacancy rate has ticked higher thus far in 2020, absorption has been positive

Rents

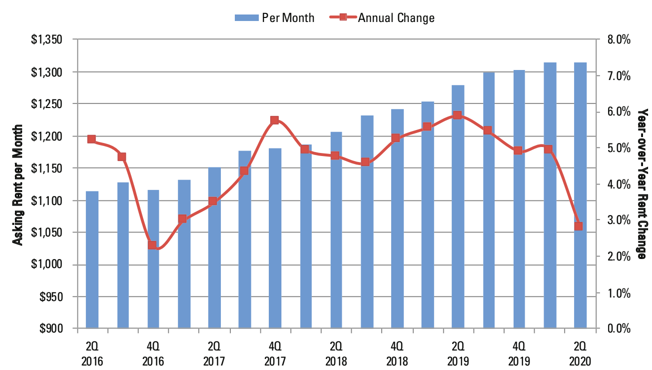
> Asking rents rose in the first quarter before leveling off during the second quarter. Asking rents reached $1,314 per month at midyear, up 2.8 percent year over year. Recent rent increases have largely been driven by deliveries of new units leasing at higher rates.

> Renter demand in Austin has been very strong for the past several years, outpacing new supply by more than 5,000 units since 2018 and fueling a consistent pace of healthy rent increases. During the past five years, annual rent increases have averaged 4.9 percent.

> From 2017 to 2019, rent growth in the Class A market averaged more than 5 percent, but the pace of advances has slowed in recent quarters. Year over year, Class A asking rents have risen 2.2 percent, ending the second quarter at $1,477 per month.

> **Forecast:** Rents are forecast to be essentially flat in 2020. Renter demand for units is expected to remain active, but an uptick in deliveries is expected to put some upward pressure on vacancy and restrict rent growth.

Rent Trends



Sources: NorthMarq, Reis

Asking rents reached $1,314 per month, up 2.8 percent year over year.

Development and Permitting

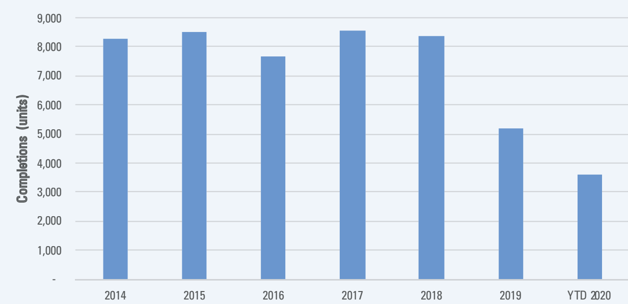
> After developers delivered projects totaling nearly 3,000 units during the first quarter, completions slowed to approximately 640 units in the second quarter.

> Apartment development is forecast to regain momentum in the second half of the year. Complexes totaling nearly 10,600 units were under construction at midyear, with nearly 4,500 units scheduled to deliver in the second half of the year. The total number of completions for 2020 will likely fall short of the earlier forecast due to the COVID-19 pandemic.

> Developers are showing no signs of slowing in Austin. Multifamily permitting has been on a steady upward trajectory since 2016, and permitting was quite active during the first half of 2020. Developers pulled permits for nearly 9,300 multifamily units in the first two quarters of this year, up more than 65 percent from levels recorded during the same period last year.

> **Forecast:** Apartment deliveries are forecast to total approximately 8,100 units in 2020. The forecast total could change if the economy experiences further disruptions to supply chains. Difficulties securing financing may slow starts in the near term.

Development Trends



* Deliveries YTD
Sources: NorthMarq, Reis

Complexes totaling nearly 10,600 units were under construction at midyear

Multifamily Sales

- Transaction activity in Austin has been fairly consistent in recent years. However, sales velocity slowed in the first half of 2020, mirroring trends recorded across nearly every major market. Compared to the same period last year, sales velocity in the first half of 2020 was down nearly 35 percent.
- In transactions where sales prices are available, the median price during the first half of this year was approximately $155,400 per unit, down 11 percent from the median price in 2019. While fewer properties traded in the second quarter, the median price rose, reaching $170,300 per unit in the second quarter.
- Cap rates averaged approximately 4.9 percent during the first half of 2020, holding steady from the 2019 average. Cap rates in Austin have generally trended lower during the past several years due to robust investor demand and low financing costs.

Investment Trends

Sources: NorthMarq, CoStar, Real Capital Analytics

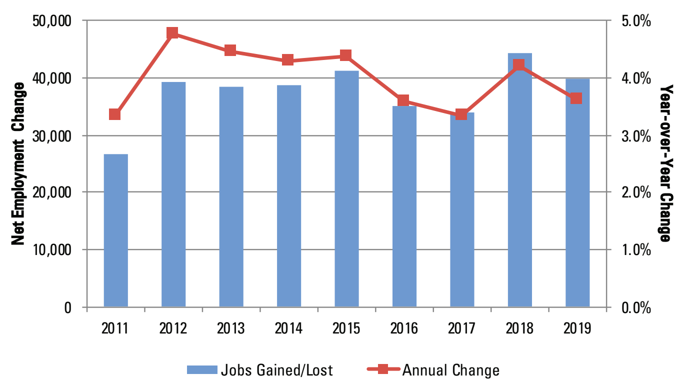
Cap rates averaged approximately 4.9 during the first half of 2020.

Looking Ahead

After an eventful first half of 2020, the Austin economy is expected to return to growth mode in the second half of the year. A clear indication of Austin's spot as one of the top destinations for companies looking to expand or relocate was confirmed early in the third quarter when Tesla announced plans to build a $1 billion facility just outside the city. Construction of Tesla's facility has already begun, with an opening expected to occur as early as the fourth quarter of 2021.

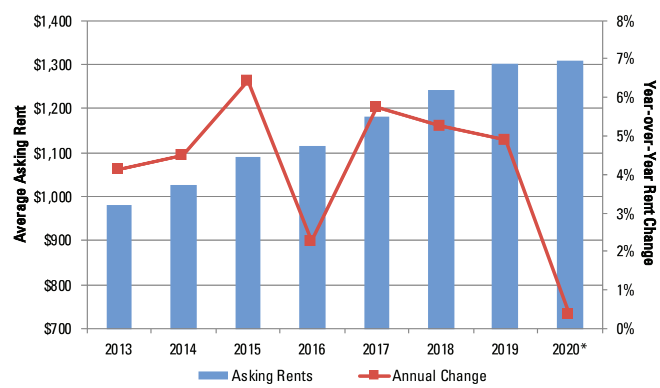
The local investment market is expected to regain momentum during the second half of the year as conditions return to normal. The Tesla facility could easily be the most significant corporate expansion announcement in the country in 2020, and the growth drivers that were present in the market at the beginning of 2020 should be back in place by the end of the year. These factors should combine to buoy investor sentiment.

Employment Forecast



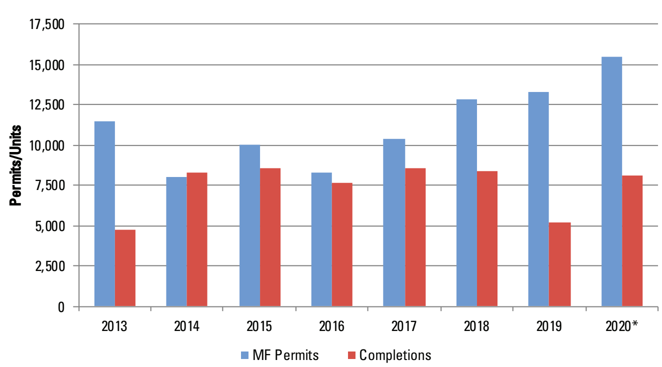
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



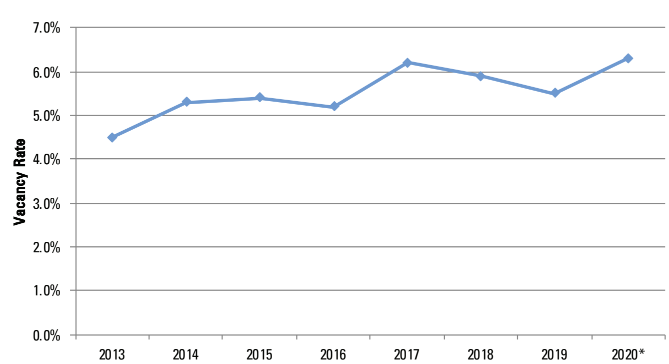
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of $14 billion, loan servicing portfolio of more than $61 billion and the multi-year tenure of our nearly 600 people.

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