

Austin Multifamily

Investment Activity Up, Sales Prices on the Rise

Highlights

- > Vacancy likely hit its post-COVID peak in Austin during the first quarter, with conditions likely to improve as the year goes on, and absorption regains momentum. Hiring is forecast to be particularly strong in the second half of the year, fueling renter demand for apartments.
- > Vacancy rose 70 basis points during the first quarter, reaching 7.3 percent. Year over year, the rate is up 140 basis points.
- > As vacancy has pushed higher, rents have dipped as operators focus on retaining renters. Year over year, area asking rents are down 4 percent to \$1,263 per month.
- > Investment activity in Austin is off to a stronger start than the pace that was established in both 2019 and 2020. Prices rose, with the median price reaching \$185,200 per unit, while cap rates held steady at approximately 4.5 percent.

Q1 Snapshot

Austin Market



Market Fundamentals

Vacancy	7.3%
- Year Over Year Change	+140 bps
Asking Rent	\$1,263
- Year Over Year Change	-4.0%



Transaction Activity*

Median Sales Price Per Unit (YTD)	\$185,200
Cap Rates (Avg YTD)	4.5%



Construction Activity

Units Under Construction	10,210
Units Delivered YTD	1,868

*In transactions where pricing is available

Austin Multifamily Market Overview

The Austin multifamily market has not yet returned to equilibrium, following a period of active new apartment construction and economic volatility brought about by the COVID-19 outbreak. Vacancy has trended higher, and rents have dipped in recent quarters. These trends are likely to reverse course in the coming quarters. Employment is nearly back to the previous peak, and a few more quarters of broad-based gains are likely. Apartment absorption has been positive in recent quarters but has declined after peaking at more than 8,300 units in 2018. The pace of absorption should accelerate in the coming quarters.

While there has been some uneven performance when it comes to market-wide vacancies and rents, the local multifamily investment market has remained on an upward trajectory, as investors remain optimistic about short- and long-term demand drivers. Transaction activity in the first quarter outpaced levels recorded one year earlier, and prices pushed higher. Cap rates have remained below 5 percent since 2019 and are expected to remain low.

Employment

- > The Austin labor market is bouncing back, adding 9,700 new jobs in the first quarter. Year over year through the first quarter, area employment is down 1.8 percent, but the market will begin posting annual gains in the second quarter.
- > Despite economic volatility since the COVID-19 shutdown one year ago, the professional and business services industry has been adding workers at a rapid pace. During the past year, employment in white-collar professional industries has expanded by nearly 5 percent with the addition of more than 9,500 workers.
- > Austin's favorable economy continues to attract an influx of companies relocating and expanding to the market. Tesla's second headquarters will come online by the end of 2021, creating 5,000 new jobs.
- > **Forecast:** The Austin labor market continues to recover, and employers are forecast to add 50,000 new jobs in 2021, a 4.5 percent increase to area payrolls.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Employers are forecast to add 50,000 new jobs in 2021

Vacancy

- > Deliveries of new units have outpaced absorption in recent periods, pushing the local vacancy rate higher. During the first quarter, vacancy rose 70 basis points, reaching 7.3 percent.
- > In the past 12 months, vacancy in Austin has crept up 140 basis points. The rate has pushed higher in areas such as Leander and Cedar Park, where construction has been active in recent years but is forecast to slow in the coming quarters.
- > Vacancy increases have been concentrated in Austin's large, Class A segment. The Class A vacancy rate ended the first quarter at 8.1 percent, up 140 basis points year over year. Absorption in Class A properties has been positive in every quarter for more than a dozen years but has not kept pace with new deliveries in recent periods.
- > **Forecast:** Renter demand should pick up as the economy strengthens. The local vacancy rate is forecast to end the year at 7.1 percent.

Vacancy Trends



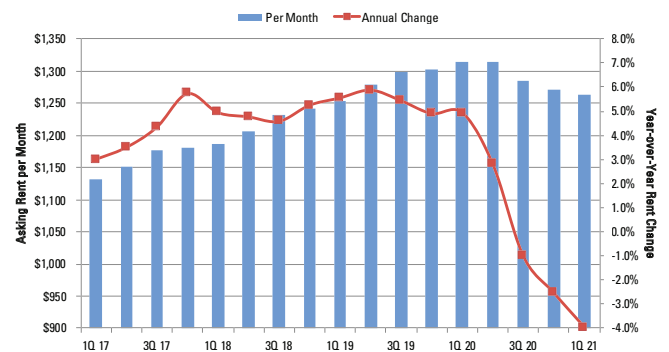
Sources: NorthMarq, Reis

Absorption in Class A properties has been positive in every quarter for more than a dozen years

Rents

- > After several years of strong growth, rents have trended lower in response to a short-term, supply-demand imbalance. Asking rents dipped 0.5 percent from the end of last year to the first quarter of 2021.
- > Year over year, area asking rents are down 4 percent to \$1,263 per month. One year ago at this time, rents had posted an annual increase of nearly 5 percent.
- > Rents in Downtown Austin have been most impacted by the drop-off in short-term rentals. Asking rents in the Downtown area have dropped nearly 9 percent year over year to \$1,558 per month.
- > **Forecast:** Apartment rents are expected to stabilize in the second half of the year and return to an upward trajectory in 2021. Asking rents are forecast to reach \$1,300 per month by the end of the year, representing a gain of 2.5 percent for the full year.

Rent Trends



Sources: NorthMarq, Reis

Asking rents are forecast to reach \$1,300 per month by the end of the year

Development and Permitting

- > Developers delivered nearly 1,900 apartment units during the first quarter, down from the more than 3,300 units that came online in the first few months of 2020. Construction has been active, with deliveries averaging 2,000 units per quarter since the beginning of 2014.
- > Projects totaling approximately 10,200 units were under construction in the Austin area at the end of the first quarter. The rapid growth occurring in Hays County is prompting development; nearly 1,700 units are under construction in the Kyle and Buda areas.
- > Permitting activity in Austin remains elevated. During the first quarter, developers pulled permits for nearly 7,800 multifamily units, up more than 40 percent from the same period in 2020. Permits for 22,000 multifamily units are expected to be issued this year.
- > **Forecast:** Apartment construction will remain active in 2021, but deliveries will likely lag totals from recent years. Approximately 8,000 units are forecast to come online this year, down 7 percent from the 2020 total.

Development Trends



* Deliveries YTD
Sources: NorthMarq, Reis

Projects totaling approximately 10,200 units are under construction

Multifamily Sales

- > Transaction activity is off to a strong start to this year, outpacing levels from the beginning of each of the past two years. Sales of apartment properties in the first quarter were up 35 percent when compared to the same period in 2020.
- > With sales velocity on the rise, pricing has pushed higher. In transactions where pricing is available, the median price rose approximately 15 percent to \$185,200 per unit. The current pricing in the market reflects investor sentiment that operating conditions will improve as the economy resumes its upward trajectory.
- > Cap rates mostly held steady during the first quarter, averaging approximately 4.5 percent. Cap rates in the Austin market have remained below 5 percent since 2019.

Investment Trends



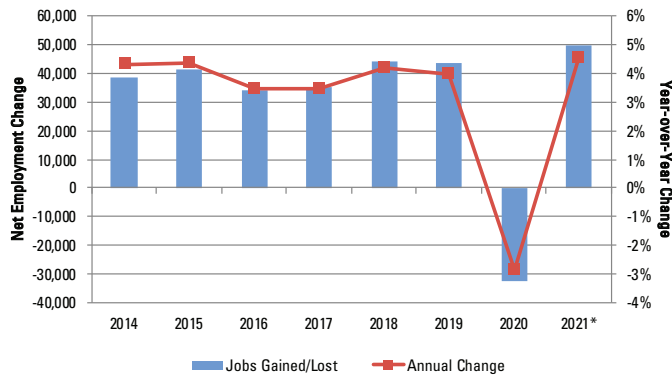
The median price rose approximately 15 percent to \$185,200 per unit

Looking Ahead

The Austin economy is poised for a period of rapid growth in 2021, which ultimately will lead to healthy renter demand for units. For the full year, new supply should outpace absorption, causing the area vacancy rate to rise. However, the rate has likely already peaked and should tighten in the second half of 2021. Despite some near-term volatility in local vacancy rates, the overall market outlook is favorable, supported by a dynamic labor market. Tesla's Gigafactory opening, which is slated for the end of 2021, is likely to be one of the most significant economic investments in the country this year, bringing thousands of high-wage workers into the market. Some of these employees will undoubtedly end up in area Class A apartment units, helping stabilize conditions at the top tier of the market.

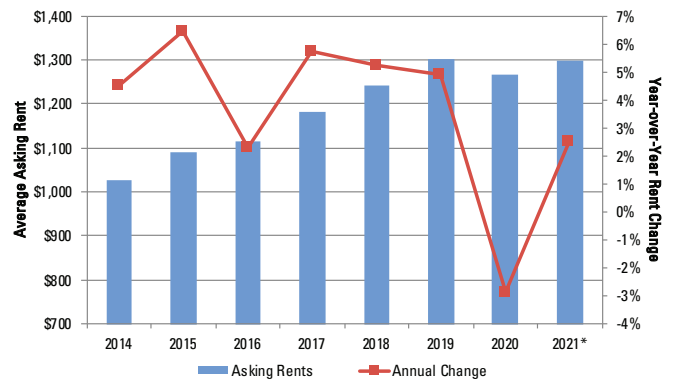
The healthy growth projections should continue to fuel the Austin investment market in 2021. Sales velocity is already ahead of last year's pace, and prices are pushing higher, despite some softer operating conditions in the near term. Additional successes in attracting new businesses should continue to brighten the outlook, bringing capital into the investment market. Investors will monitor the pace of lease-up in newer projects, with expectations that leasing velocity will intensify, as the economy opens and in-migration from other markets accelerates. Cap rates have been consistently below 5 percent in recent years and should remain near current ranges. Cap rates may even compress slightly as transaction activity accelerates and economic growth gains momentum.

Employment Forecast



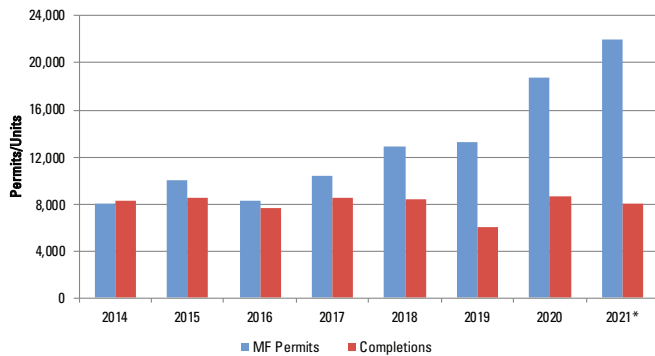
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



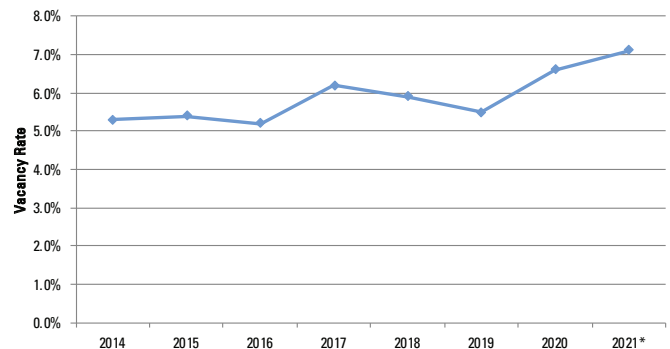
* Year End Forecast
Sources: NorthMarq, Reis

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 more than \$16 billion, loan servicing portfolio of more than \$65 billion and the multi-year tenure of our nearly 600 people.

For more information, contact:

Scott Lamontagne

MANAGING DIRECTOR – INVESTMENT SALES

512.450.6820

slamontagne@northmarq.com

John Morran

SENIOR VICE PRESIDENT/MANAGING DIRECTOR —
DEBT & EQUITY

512.450.6833

jmorran@northmarq.com

Pete O'Neil

DIRECTOR OF RESEARCH

602.508.2212

poneil@northmarq.com

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