

Austin Multifamily

Rents Rise as Vacancy Tightens at Midyear

Highlights

- > The Austin multifamily market demonstrated significant improvement during the second quarter, with a rise in absorption supporting tightening vacancy and a steep acceleration in quarterly rent growth.
- > Vacancy ended the second quarter at 6.9 percent, falling 40 basis points from the first quarter. Despite the recent improvement, the vacancy rate is still up 100 basis points year over year.
- > Asking rents jumped 3.7 percent during the second quarter, bringing the average to \$1,310 per month. Current rental rates are nearly identical to figures from one year ago.
- > After a strong start to the year, sales velocity slowed by approximately 10 percent during the second quarter. Prices are on the rise, with the median price reaching \$190,500 per unit through the first half of this year, while cap rates have averaged 4.4 percent.

Q2 Snapshot

Austin Market



Market Fundamentals

Vacancy	6.9%
- Year Over Year Change	+100 bps
Asking Rent	\$1,310
- Year Over Year Change	-0.3%



Transaction Activity*

Median Sales Price Per Unit (YTD)	\$190,500
Cap Rates (Avg YTD)	4.4%



Construction Activity

Units Under Construction	10,284
Units Delivered YTD	2,876

*In transactions where pricing is available

Austin Multifamily Market Overview

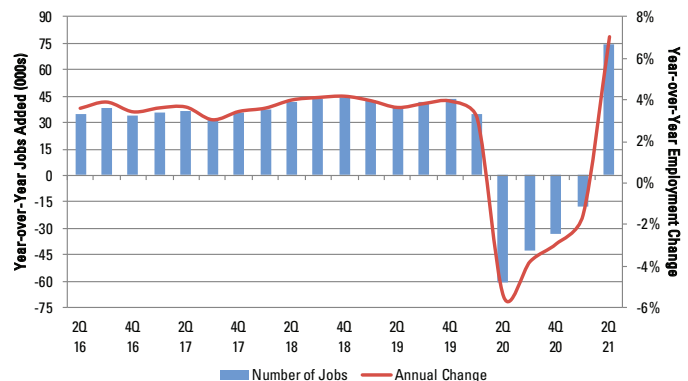
The Austin multifamily market strengthened in the second quarter, as vacancy tightened, rents climbed, and prices rose. Total area employment has nearly returned to the pre-pandemic peak as businesses continue to relocate and expand to the region. Employment opportunities will continue to spur in-migration to the Austin area and fuel renter demand for multifamily units. Developers continue to move new projects into the construction pipeline to meet current and anticipated future demand. Deliveries in the first half of this year are behind the pace established in recent years, but multifamily permitting has spiked, which will lead to additional supply growth in the coming years.

While the overall transaction activity cooled from the pace set during the first quarter, sales volume throughout the first half of the year has significantly outperformed the first half of 2020. Class A properties accounted for a large share of the sales, which has contributed to the rise in per-unit pricing. Cap rates have been fairly steady throughout the first two quarters, closely tracking 2020 levels. Rates will likely begin to compress as prices in the market continue to rise.

Employment

- > Year over year, total employment in Austin expanded by 7 percent. Employers have added nearly 75,000 jobs through the second quarter. While job growth has been significant, gains slowed in the first half of 2021, expanding 2 percent with the addition of around 23,000 jobs.
- > Many sectors in the Austin labor market continue to report growth in 2021. One of the strongest sectors has been the local trade, transportation, and utilities industry, which has expanded by more than 8.5 percent year over year, with the addition of nearly 15,500 workers.
- > The Austin-based freight brokerage company Arrive Logistics announced plans during the second quarter to expand its operations in the area. The company will add 600 employees to its Austin office in the coming quarters.
- > **Forecast:** Austin employers are forecast to add more than 45,000 new jobs to the labor market by the end of the year, a 4.1 percent increase in total payrolls.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Year over year, total employment in Austin expanded by 7 percent

Vacancy

- > After rising for three consecutive quarters, vacancy in Austin has begun to tighten in recent months. In the second quarter, vacancy dropped 40 basis points to 6.9 percent.
- > While vacancy trended lower in the second quarter, the rate is still up 100 basis points year over year. Local vacancy had ranged between 5.5 percent and 6.5 percent since the beginning of 2017 until late last year.
- > The recent decrease in vacancies is being led by some of Austin's largest submarkets. Vacancy in the Round Rock/Georgetown area dipped 40 basis points during the second quarter to 6.8 percent.
- > **Forecast:** Renter demand should catch up to increased levels of inventory. Area vacancy is forecast to end 2021 at 6.5 percent, 40 basis points lower than the current rate and 10 basis points lower than at the end of 2020.

Vacancy Trends



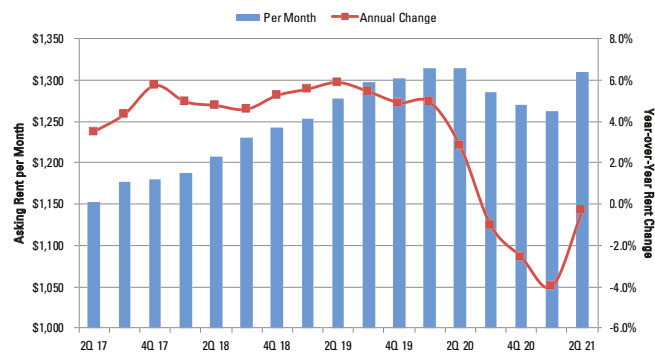
Sources: NorthMarq, Reis

During the second quarter, the Austin vacancy rate dipped 40 basis points to 6.9 percent

Rents

- > Rents recovered in Austin during the second quarter, after trending lower for a few periods when new additions to supply outpaced demand growth. Asking rents jumped 3.7 percent in the second quarter, reaching \$1,310 per month.
- > Current asking rents are 0.3 percent lower than levels from the second quarter of last year. The market has fared stronger thus far in 2021; year to date, asking rents are up 3.1 percent, with additional increases anticipated for the second half of the year.
- > After declining in the past several quarters, rents in Class A properties ticked up 1 percent in the second quarter, reaching \$1,440 per month.
- > **Forecast:** After rents dipped during 2020, there was significant growth in the second quarter as the economy returns to normal. By the end of the year, rents are expected to reach \$1,346 per month, an increase of more than 6 percent.

Rent Trends



Sources: NorthMarq, Reis

Asking rents jumped 3.7 percent in the second quarter, reaching \$1,310 per month

Development and Permitting

- > Developers delivered approximately 2,900 units during the first half of 2021, down 35 percent from the same period last year. The Southeast submarket has been one of the more active areas with more than 800 units delivered year to date.
- > The pace of new development has been fairly consistent in recent years in the Austin market. Projects totaling nearly 10,300 units are currently under construction in the market, down 3 percent from totals one year ago.
- > Permitting activity in Austin was very active through the first half of 2021. Developers pulled permits for more than 14,500 multifamily units in the first two quarters, up 57 percent from the same period last year.
- > **Forecast:** Apartment construction is forecast to remain active through the remainder of 2021 and into next year as well. Developers are forecast to deliver approximately 7,200 units to the market this year, after more than 8,600 units came online in 2020.

Development Trends



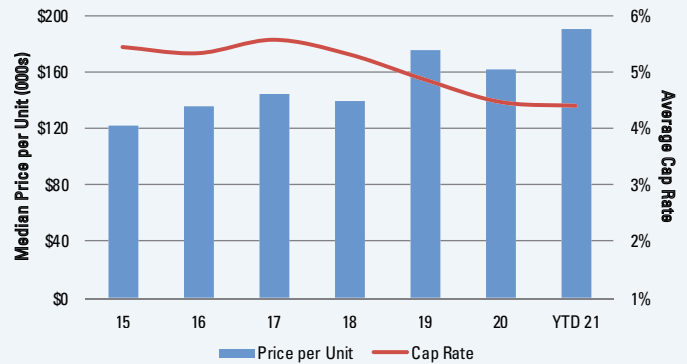
* Deliveries YTD
Sources: NorthMarq, Reis

Developers pulled permits for more than 14,500 multifamily units in the first two quarters

Multifamily Sales

- > After surging at the start of the year, the pace of investment activity leveled off during the second quarter. Sales velocity in the second quarter was down 10 percent from levels recorded during the first quarter. Despite the modest decline in recent months, transaction activity during the first half of the year more than doubled the pace of deals recorded in the first half of 2020.
- > In transactions where pricing is available, the median price through the first half of 2021 was \$190,500 per unit, up nearly 20 percent from the median price in 2020.
- > Cap rates in the Austin market compressed at a steady clip from 2017 to 2020, as investors competed for multifamily properties in one of the fastest-growing markets in the country. Thus far in 2021, cap rates have inched about 10 basis points lower, averaging 4.4 percent year to date.

Investment Trends



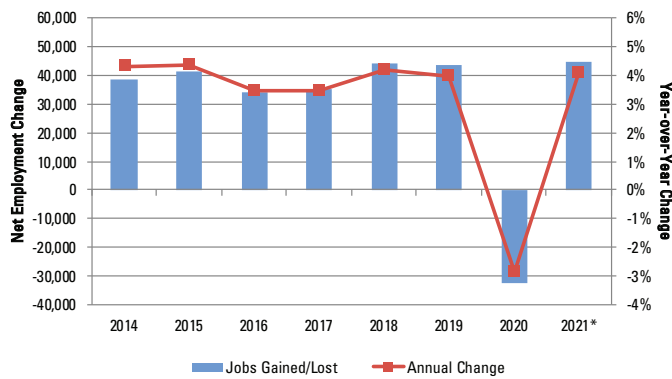
The median price through the first half of 2021 was \$190,500 per unit

Looking Ahead

The Austin multifamily market is expected to strengthen in the second half of this year, building on gains recorded during the second quarter. The market has been in a high-supply/high-demand cycle for the past several years. That balance was disrupted for much of 2020, as the economy was extremely volatile, and the pace of in-migration cooled. Conditions are returning to pre-COVID norms, and a rapid pace of growth is forecast to continue into the second half of this year. The vacancy rate will likely tighten in the coming quarters, but developers will remain active, causing declines to be modest in the near term.

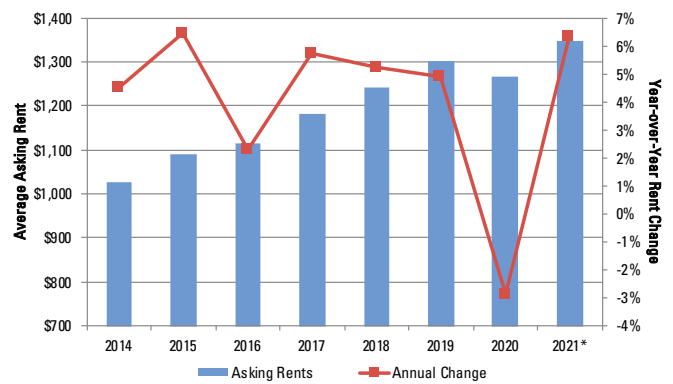
Investment activity is forecast to gain momentum in the second half of the year. The rent increases that were recorded during the second quarter and are forecast for the remainder of 2021 will serve as an indication of the health of the underlying demand fundamentals in the market and will attract investors. After several years of compression, cap rates appear to have settled into the low- to mid-4 percent range, and cap rates will likely remain largely unchanged in the second half of the year.

Employment Forecast



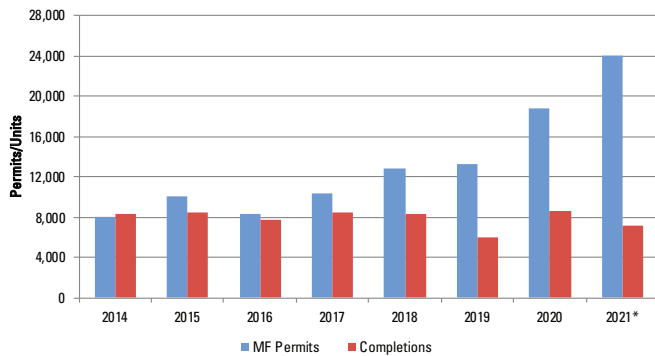
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



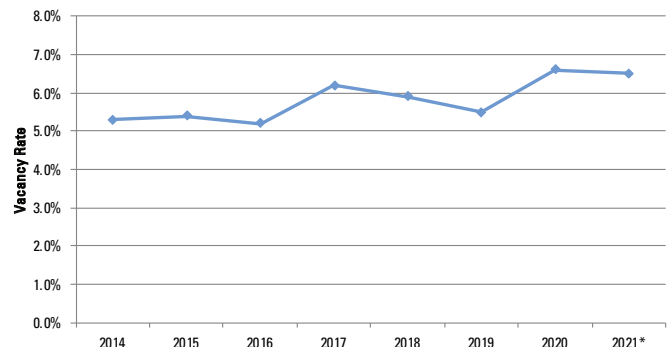
* Year End Forecast
Sources: NorthMarq, Reis

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.

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