

Market Insights

Greater Austin Multifamily 4Q 2021



Construction Activity



13,783

Units under construction

4,471

Units delivered (YTD)

Market Fundamentals



5.3%

Vacancy

-130 bps

Year over year change

\$1,450

Asking Rent

+14.2%

Year over year change

Transaction Activity*



\$208,000

Median sales price per unit (YTD)

Rapid Economic Growth Fueling Transaction Activity

Highlights

- Austin's strengthening economy and elevated renter demand continued to drive down vacancy rates and push rents higher in the final quarter of 2021. Improving conditions carried over to the investment market, where transaction activity gained momentum, prices rose, and cap rates remained low.
- The pace of rent growth accelerated in 2021, with the largest annual increase ever recorded for the region. In the past year, asking rents advanced 14.2 percent to \$1,450 per month. In the final three months of the year, rents spiked 5.8 percent.
- The local investment market strengthened at the end of 2021. The pace of apartment sales accelerated from the previous quarter, cap rates remained near 3.5 percent, and prices rose to nearly \$208,000 per unit in transactions where pricing was available.

Austin Multifamily Market Overview

The Austin multifamily market posted one of its strongest performances on record in 2021. Companies continue to relocate to Austin or expand their current footprint in the region, and these jobs have led to an influx of new residents. Employment levels in Austin have recovered faster than in most parts of the country, supporting demand for rental housing. Vacancy conditions started to tighten during the second quarter and continued to improve throughout the course of the year, allowing for rapid rent advances in the third and fourth quarters. The pace of deliveries slowed in 2021 but is likely to surge in the year ahead, as developers are scrambling to keep up with the demand by accelerating the construction of new apartment buildings.

Investors stepped up acquisition activity in the final months of 2021, with transactions spiking by 55 percent from levels recorded in the third quarter. Coinciding with the recovery of the local economy, total sales volume for the calendar year doubled 2020 levels. The increasingly competitive investment climate and the spike in rents have pushed prices higher and allowed cap rates to compress. In transactions where pricing was available, the median price of sales in 2021 was nearly \$208,000 per unit, an increase of 29 percent from the median price in 2020. Cap rates averaged about 3.5 percent for much of the year.

* In transactions where pricing is available

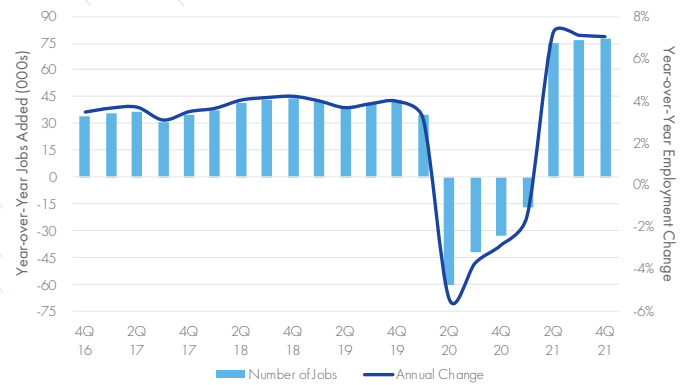
Employment

- The Austin labor market made a full recovery in 2021, following the job losses sustained during the pandemic. Employers have added roughly 77,800 workers in the past year, an expansion of 7 percent. Current employment levels are 3 percent higher than at the pre-COVID peak.
- While nearly every sector in the local economy expanded in 2021, the professional and business services sector posted the greatest gains. Professional employment in Austin grew by nearly 11 percent during the year, adding roughly 22,500 jobs to total payrolls.
- Facebook parent company Meta recently announced that the company will occupy half of what will become Austin’s tallest skyscraper upon its expected completion in 2023. The company will occupy 589,000 square feet, and the new space will accommodate 400 employees that the company plans to hire beginning in 2022.
- **Forecast:** Austin continues to be one of the top markets in the nation for company relocation and expansion, a trend that will likely continue in the near future. Employers are forecast to add approximately 60,000 jobs in 2022, an increase of 5 percent.



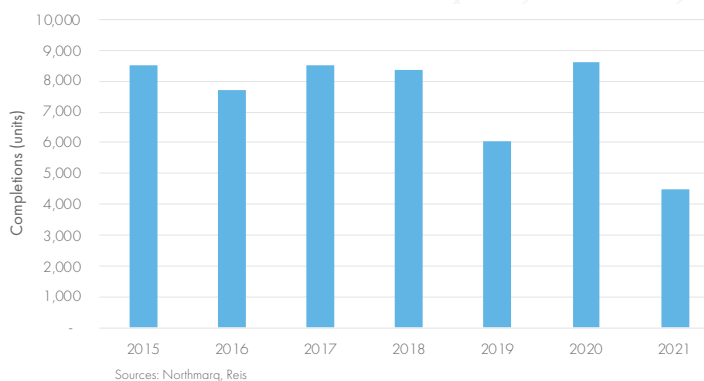
Employers added 77,800 workers in the past year.

Employment Overview



Projects totaling approximately 13,800 units are currently under construction.

Development Trends



Development and Permitting

- The pace of apartment deliveries in Austin has slowed in recent quarters. Fewer than 4,500 units came online in 2021, down from more than 8,600 units that were delivered in 2020. Roughly one quarter of all deliveries occurred in the Southeast submarket.
- While total deliveries have declined, construction activity in Austin has increased. Projects totaling nearly 13,800 units are currently under construction in the region, an increase of 22 percent compared to activity one year ago.
- In response to elevated demand for new units, developers have been active pulling multifamily permits in order to move new projects into the development pipeline. Permits for approximately 25,700 multifamily units were pulled in 2021, an increase of 37 percent from 2020 levels.
- **Forecast:** While the pace of deliveries slowed in 2021, developers are expected to accelerate activity in the coming year. Approximately 10,000 apartment units are forecast to be delivered in 2022. Completions have averaged more than 7,700 units per year since 2014.

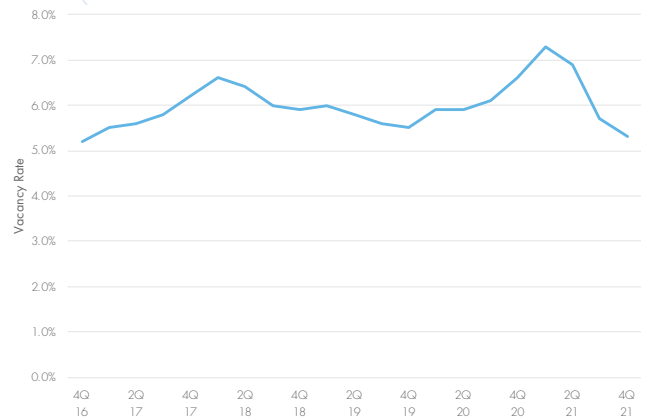
Vacancy

- Vacancy continued to tighten in Austin for the third consecutive quarter. During the fourth quarter, the vacancy rate improved by 40 basis points, ending the year at 5.3 percent.
- The Austin multifamily market recorded its largest year-over-year improvement of the past decade as the vacancy rate dropped 130 basis points in 2021. The current vacancy rate is the lowest it has been in the region since 2016.
- The combination of a slowing pace of supply growth and increasing demand pushed vacancies lower. Net absorption topped 6,700 units in 2021, 10 percent higher than in 2020.
- **Forecast:** Multifamily vacancy is forecast to record a slight uptick in the coming quarters as thousands of new units are expected to come online. The rate is expected to rise 20 basis points in 2022, ending the year at 5.5 percent.



Vacancy improved by 130 basis points in 2021.

Vacancy Trends

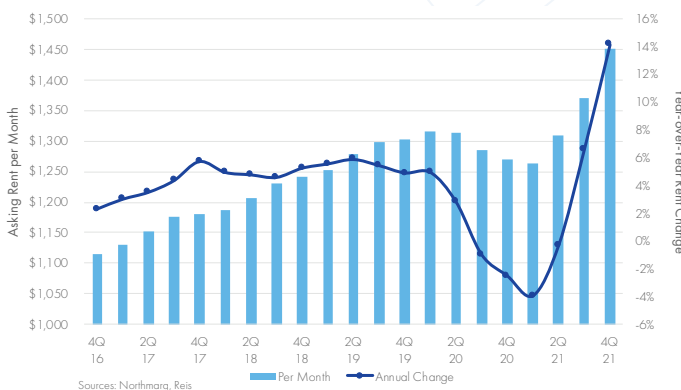


Sources: NorthMarq, Reis



Asking rents advanced 14.2 percent in 2021, rising to \$1,450 per month.

Rent Trends



Sources: Northmarq, Reis

Rents

- Rent growth in Austin continued to accelerate in the final months of 2021, building on a 4.6 percent gain in the third quarter. In the fourth quarter, asking rents in Austin rose 5.8 percent, reaching \$1,450 per month.
- Fueled by rapid spikes in the second half of the year, area asking rents increased 14.2 percent in 2021. These rapid gains more than offset a mild dip recorded in 2020. Rents rose by nearly \$200 per month in 2021.
- Asking rents in Austin's higher-end, Class A properties are up 13.2 percent from one year ago, reaching \$1,619 per month at the end of the fourth quarter.
- **Forecast:** The multifamily market begins 2022 on a strong footing, and rents should push higher in the coming year. The pace of growth is likely to lag the rapid increases recorded in 2021; however, asking rents are forecast to rise about 10 percent to \$1,600 per month.

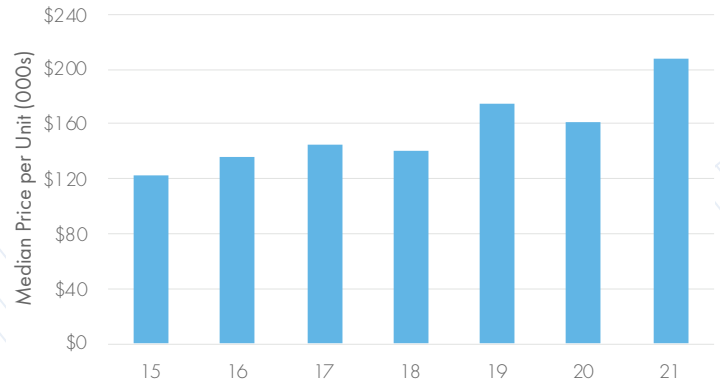
Multifamily Sales

- Sales of local multifamily properties accelerated during the fourth quarter, with activity spiking more than 50 percent from the previous quarter. Sales velocity in 2021 more than doubled levels from 2020.
- As sales velocity gained momentum and rents spiked, prices pushed higher. In transactions where pricing was available, the median price in deals that traded during the fourth quarter rose to \$244,400 per unit. The median price of sales for the full calendar year rose to nearly \$208,000 per unit, an increase of 29 percent from 2020.
- Area cap rates have been trending lower in recent months. Among transactions in the fourth quarter, local cap rates averaged 3.5 percent, nearly 100 basis points lower than the average cap rate in 2020.



The median price in 2021 was approximately \$208,000 per unit.

Investment Trends



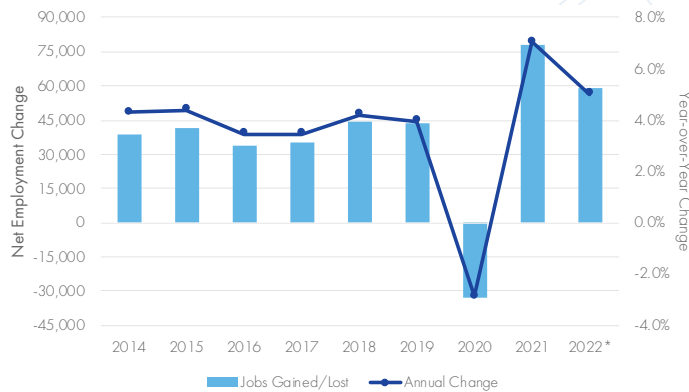
Sources: NorthMarq, CoStar

Looking Ahead

Austin will likely continue to be one of the top markets in the country for employment gains and population growth in 2022, and this expansion will fuel renter demand for multifamily units. Developers will accelerate the pace of apartment construction in efforts to match demand. In 2022, deliveries of new units are on pace to reach the highest level in more than 20 years, after completions lagged demand in the preceding year. While vacancy rates may inch higher, there should be sufficient demand in the market and enough economic momentum—particularly in high-wage employment sectors—to support continued rent gains.

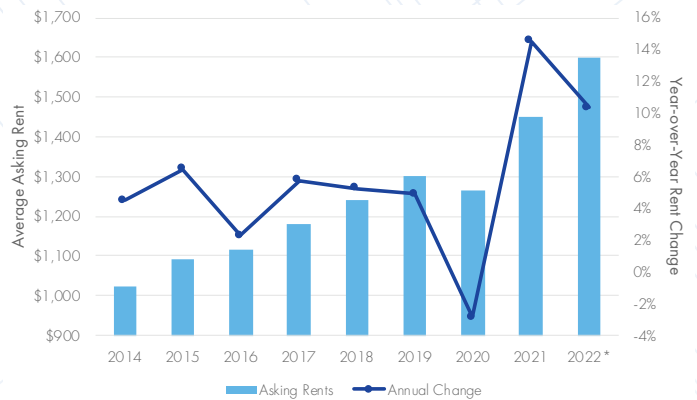
Rents are forecast to advance about 10 percent in the year ahead, a figure that will be one of the strongest increases in the country, allowing for sustained momentum in the local investment market in 2022. The rapid rent growth should attract investors seeking to acquire properties in a high-growth climate. With cap rates compressed and interest rates likely to push higher, this anticipated rent growth will allow acquisitions to pencil out, as pro forma financials will highlight the upside potential in new transactions. The heightened development climate will bring more available properties to the market, providing additional investment opportunities as projects are delivered and successfully leased-up.

Employment Forecast



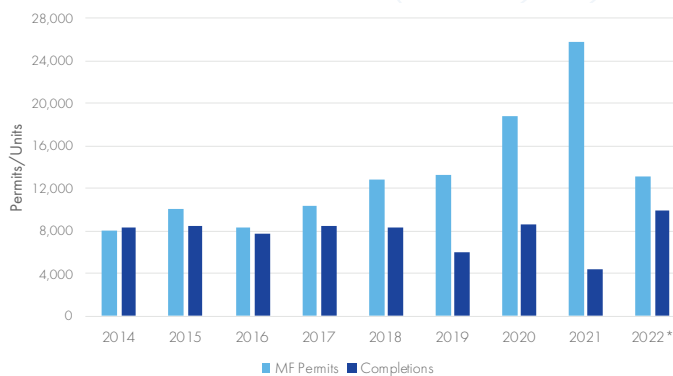
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



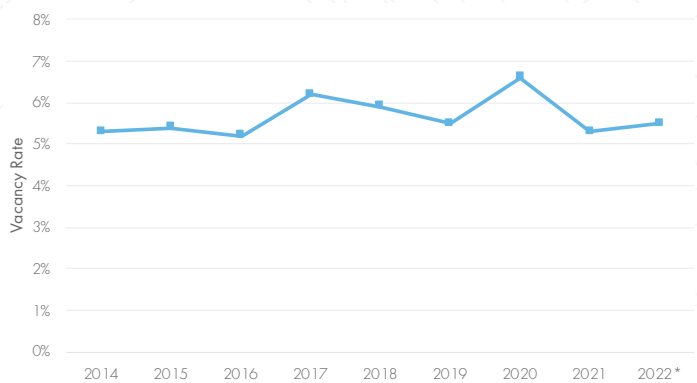
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis



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