

Austin Multifamily

Business Attraction Continues, Setting the Stage for Future Renter Demand

Highlights

- > The Austin multifamily market has held up reasonably well in 2020, although some of the effects of accelerating supply growth and the moderating pace of new demand began to emerge during the third quarter. Demand should gain momentum in the coming months, as Austin continues to attract technology leaders to the area.
- > Apartment vacancy rose 20 basis points in the third quarter, finishing at 6.1 percent. Year over year, Austin's vacancy rate is up 50 basis points.
- > Local asking rents fell sharply in the third quarter, dipping 2.2 percent to \$1,285 per month. After the quarterly decline, asking rents are 1 percent below the figure from 12 months earlier. Rents in Austin have recorded rapid growth during the past several years.
- > The Austin investment market strengthened during the third quarter. Sales velocity accelerated, particularly within the city of Austin. Prices rose during the quarter, while cap rates have averaged 4.5 percent in 2020.

Austin Multifamily Market Overview

The Austin multifamily market recorded a slight pullback during the third quarter. Vacancy inched higher while rents recorded their first notable contraction since the pandemic struck. Despite some short-term economic disruption, Austin has been one of the top cities in the country for net migration and business attraction, trends that are continuing. In late 2020, Oracle announced plans to move the company's headquarters from Silicon Valley to Austin. The company opened a large corporate campus in Austin in 2018 with 1,500 workers and quickly expanded to 2,500 employees. Additional growth is likely; when Oracle first opened its 40-acre campus, the company said it could expand to as many as 10,000 local employees.

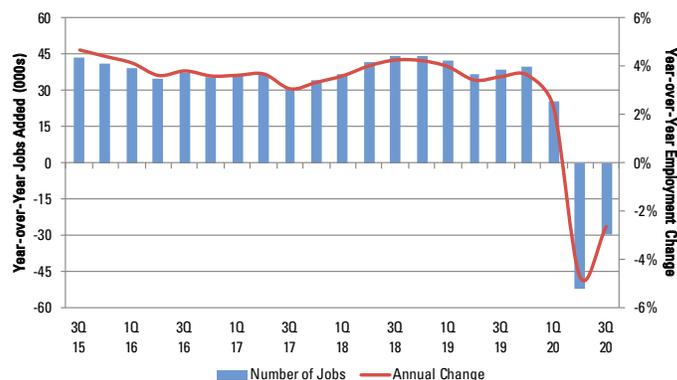
Q3 Snapshot	Austin Market
	Market Fundamentals
	Vacancy 6.1%
	- Year Over Year Change +50 bps
	Asking Rent \$1,285
	- Year Over Year Change -1.0%
	Transaction Activity*
	Median Sales Price Per Unit (YTD) \$153,200
	Cap Rates (Avg YTD) 4.5%
	Construction Activity
	Units Under Construction 11,500
	Units Delivered YTD 4,916
	<small>*In transactions where pricing is available</small>

After a modest first half, transaction activity increased considerably in the third quarter, and the investment market is showing signs of having returned to normal. During the first two quarters, activity was concentrated in the Austin market's suburban areas, with almost half the multifamily deals occurring in Round Rock, Georgetown, Leander, and Kyle. Activity shifted in the third quarter, and nearly all significant transactions took place within the city of Austin. Cap rates have consistently declined during the past several years, highlighting the strength of Austin's investment market; low interest rates and robust investor demand should hold cap rates near the current average of 4.5 percent.

Employment

- > While all major markets are recording employment declines in response to the COVID-19 outbreak, losses in the Austin area have been less severe than in most areas. Employment in Austin was growing rapidly before the economy shut down, and leading companies have continued expanding in the metro throughout the pandemic.
- > Employers in Austin added 34,000 net jobs during the third quarter, and approximately 65 percent of the jobs lost during the spring had been recovered as of the end of September. Year over year, the market has recorded a 2.6 percent decline in total employment.
- > During the third quarter, aerospace and defense technology company BAE Systems announced a major campus development in the Parmer Austin Business Park. The new campus is expected to open in 2022 with the company planning to double its local workforce, adding 700 net new jobs.
- > **Forecast:** Total employment in Austin is forecast to decline by approximately 2 percent in 2020 with net job losses expected to reach approximately 23,000 positions. The market has averaged job gains of nearly 40,000 positions per year since 2015.

Employment Overview



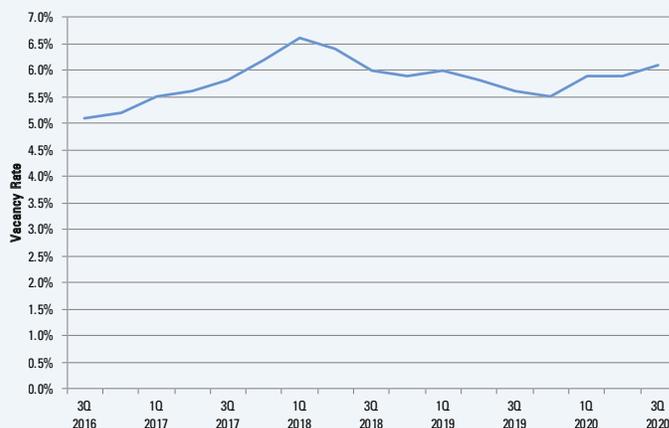
Sources: NorthMarq, Bureau of Labor Statistics

Employers in Austin added 34,000 net jobs during the third quarter

Vacancy

- > Local vacancy has drifted higher this year as absorption has fallen slightly behind the pace of new development. In the third quarter, vacancy increased 20 basis points to 6.1 percent. The local vacancy rate is up 50 basis points from one year ago, although current vacancy is still below the peak from the beginning of 2018.
- > The combined vacancy rate for Class B and Class C properties is currently 4.4 percent, lower than the overall rate. After remaining low for the past several years, vacancy in the lower tiers has pushed higher in recent quarters, rising 90 basis points year over year.
- > Apartment demand in Austin has not returned to full force quite yet. Through the first three quarters, net absorption totaled approximately 3,300 units, down roughly 30 percent from the same period in 2019.
- > **Forecast:** The local vacancy rate will likely tick higher for a few more quarters, until the local economy fully regains momentum. Vacancy is forecast to end 2020 at 6.4 percent.

Vacancy Trends



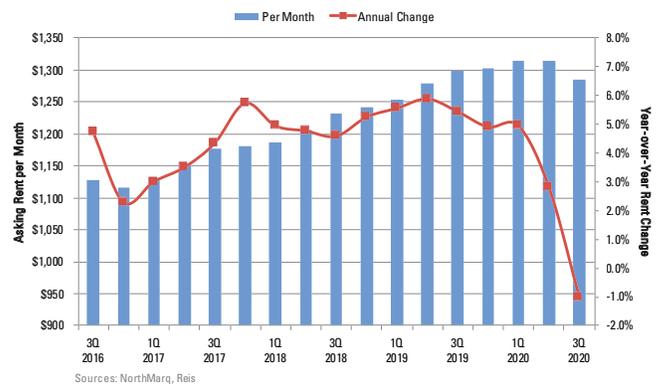
Sources: NorthMarq, Reis

Through the first three quarters, net absorption totaled approximately 3,300 units

Rents

- > After a steady first half, apartment rents in Austin reported their first significant decline in recent months. Local asking rents fell 2.2 percent from the second quarter to the third quarter, dipping to \$1,285 per month.
- > Declines in the third quarter resulted in an annual rent contraction. Year over year, local asking rents have dipped 1 percent. Losses are likely to be short term, as the high-growth nature of the local economy should support renter demand in the coming periods.
- > Suburban areas have been a beneficiary of the shifting living preferences, as remote working has allowed renters flexibility in location. The Round Rock/Georgetown/Hutto submarket has outperformed most areas in the market. Asking rents in the region are up 1.6 percent in the past 12 months.
- > **Forecast:** Rents are expected to tick lower in the fourth quarter. Asking rents are forecast to end 2020 at approximately \$1,280 per month, 1.8 percent lower than one year earlier.

Rent Trends

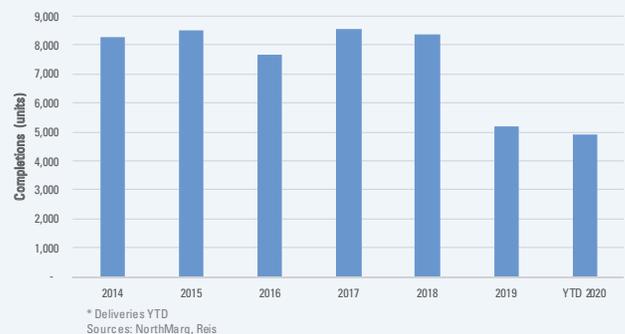


The Round Rock/Georgetown/Hutto submarket has outperformed most areas in the market

Development and Permitting

- > Developers brought approximately 750 apartment units online in the third quarter, and more than 4,900 apartment units have been completed to this point in 2020. Year-to-date apartment construction totals are up nearly 15 percent from the same period last year.
- > In the past several years, Austin has been among the most active multifamily markets in the country for new construction, and the development pipeline has continued to fill. Apartment complexes totaling 11,500 units are currently under construction.
- > Multifamily permitting surged in the third quarter, and developers pulled permits for nearly 5,700 units. Through September, permits for approximately 14,950 multifamily units have been pulled, reaching a record total with a full quarter left in the year.
- > **Forecast:** Deliveries are expected to accelerate during the fourth quarter, and developers are forecast to complete projects totaling approximately 6,700 apartment units in 2020.

Development Trends



Apartment complexes totaling 11,500 units are currently under construction

Multifamily Sales

- > Transaction activity in Austin during the third quarter outpaced the combined total number of sales from the first two quarters of the year. Despite the recent rally in activity, sales velocity through the first three quarters of 2020 is still down approximately 25 percent from the same period last year.
- > The median price year to date is \$153,200 per unit, down 13 percent from the median price last year. In transactions that closed during the third quarter, the median price rose to \$164,000 per unit.
- > Cap rates in Austin have averaged approximately 4.5 percent for much of 2020, 40 basis points lower than the average in 2019.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

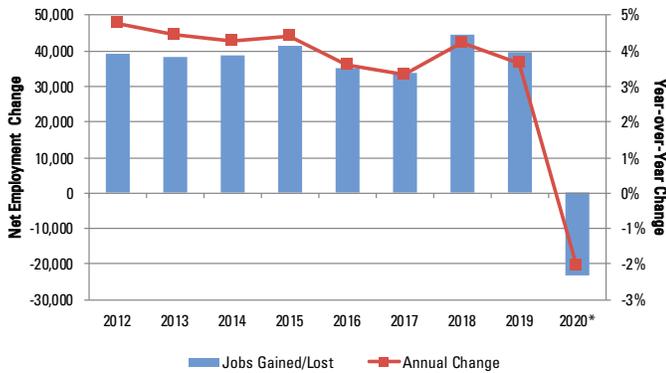
Cap rates in Austin have averaged approximately 4.5 percent for much of 2020

Looking Ahead

The Austin labor market is expected to continue to post top-tier performance in the coming quarters, which should support renter demand for apartments. While the market is forecast to record net job losses in 2020, the cuts were less severe than in nearly every other major market in the country, and the pace of recovery is healthy. One significant factor supporting the local labor outlook is the continued relocations from other markets. Through the third quarter, 28 firms had announced plans to move into Austin; the total jobs associated with these moves is expected to exceed 9,300 net new workers.

The strong growth drivers that have been fueling the Austin multifamily market for the past several years are expected to support the local investment market. Transaction activity was fairly modest during the first half of this year, but sales velocity picked up in the third quarter and this momentum is expected to carry over into the close of this year and the beginning of 2021. Strong investor demand should continue to keep cap rates low; cap rates have averaged 4.5 percent thus far in 2020, and nearly all transactions are occurring with cap rates below 5 percent.

Employment Forecast



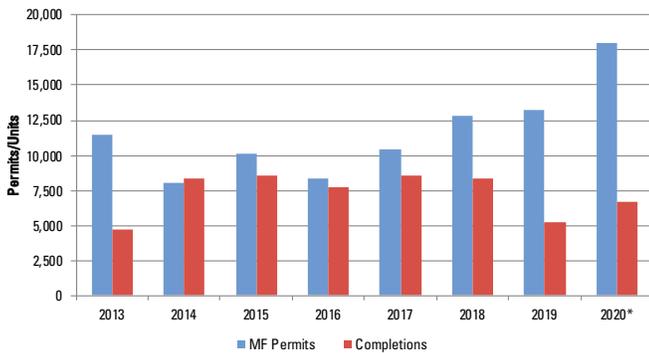
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



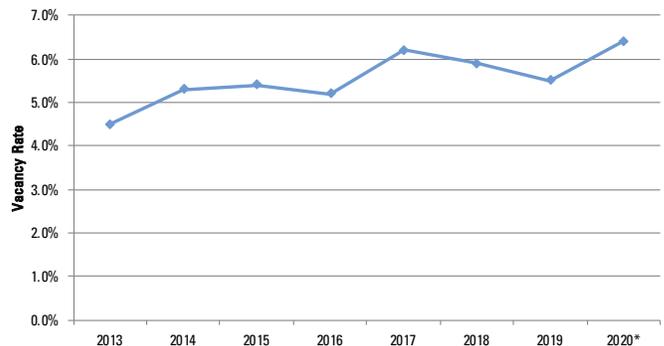
* Year End Forecast
Sources: NorthMarq, Reis

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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