

Market Insights

Greater Austin Multifamily 3Q 2021



Construction Activity



11,641

Units under construction

4,180

Units delivered (YTD)

Market Fundamentals



5.7%

Vacancy

-40bps

Year over year change

\$1,370

Asking Rent

+6.6%

Year over year change

Transaction Activity*



\$205,800

Median sales price per unit (YTD)

4.0%

Cap rates (YTD)

* In transactions where pricing is available

Employment on an Upswing, Fueling Rental Market

Highlights

- The Austin multifamily market is benefitting from a return to the rapid growth that the region has been known for over the past decade. Vacancies are dropping and rents are on the rise. The strength of the market is reflected in price and cap rate trends.
- Rents spiked 4.6 percent in just the three months of the third quarter. Asking rents ended the period at \$1,370 per month, up 6.6 percent from one year earlier. With economic growth gaining momentum and vacancy tightening, additional gains are likely.
- After trending higher at the end of 2020 and the beginning of 2021, vacancy has tightened. The rate dropped 120 basis points during the third quarter, reaching 5.7 percent. This marked the lowest vacancy rate in the Austin area in two years.
- The number of properties that sold in the third quarter lagged levels from the prior period, but sales activity to this point in 2021 has more than doubled 2020 levels. Prices are on the rise, reaching \$205,800 per unit, while cap rates have compressed to about 4 percent.

Austin Multifamily Market Overview

Renter demand in Austin is being driven by a healthy employment market that is recording rapid gains. Austin continues to attract businesses looking to relocate or expand. The Tesla Gigafactory in Austin is forecast to open in early 2022, providing a significant economic boost to a market that has already shifted from recovery into expansion mode. Tesla joins Oracle, Hewlett Packard, and Toyota, which have all recently moved their U.S. headquarters to Texas from California. During the third quarter, absorption of apartment units spiked, driving vacancy rates to their lowest point in two years and fueling a sharp rise in rents.

While overall transaction activity has inched lower in recent months, sales volume through the third quarter is more than double what it was during the same time period one year ago. Cap rates continued to compress as apartment fundamentals strengthened and competition for properties has intensified. Prices have pushed higher; the median sale price year to date is up more than 25 percent compared to levels at the end of 2020. During the third quarter alone, the median sale price was nearly \$229,000 per unit.

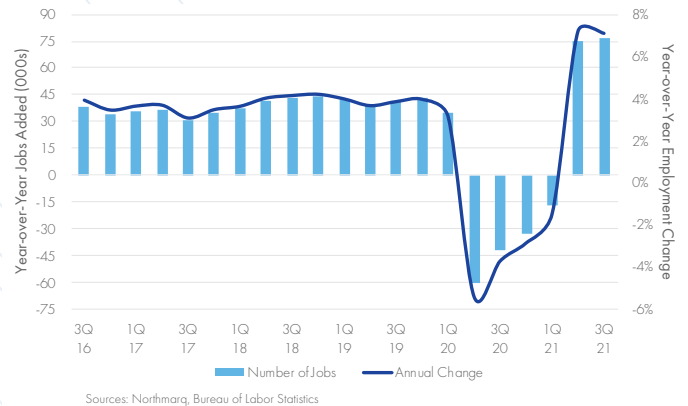
Employment

- Year over year, total employment in Austin expanded by more than 7 percent. Employers have added 77,000 jobs in the 12-month period ending in the third quarter. The local labor market made a full recovery in the third quarter; current employment totals are up about 1.5 percent from the pre-COVID peak.
- One industry to highlight from Austin’s growing labor market is the professional and business services sector. Total job growth in the sector is up 13.1 percent in the past 12 months, expanding by over 26,000 jobs.
- Financial services giant Charles Schwab is expanding operations in Austin. During the third quarter, the company announced it will add 450 jobs with positions ranging from software development to client services. The company has more than 2,700 workers in Austin, with many based at a 50-acre campus in the Domain submarket in North Austin.
- **Forecast:** Austin employers were on pace to add approximately 85,000 new jobs to the labor market by the end of the year, a 7.7 percent increase in total payrolls. This would mark one of the fastest rates of employment growth of any market in the country in 2021.



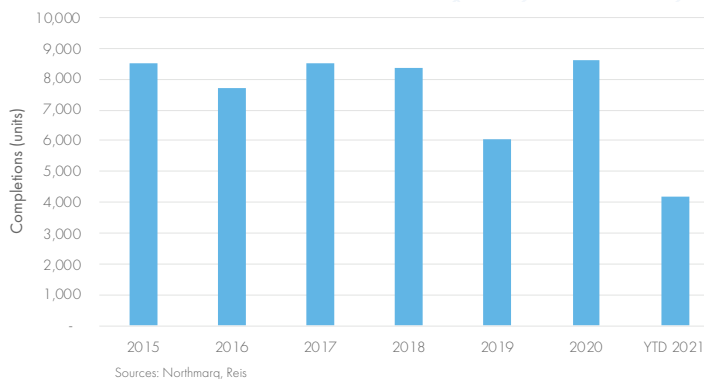
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Employment Overview



Developers pulled permits for approximately 21,400 multifamily units in the first three quarters of 2021.

Development Trends



Development and Permitting

- Developers delivered approximately 4,200 units through the first three quarters of 2021, down nearly 18 percent from the same period last year. The Southeast submarket has been the most active area with over 1,200 units delivered through the first three quarters of the year.
- The pace of new development has been fairly consistent and active in Austin in recent years. Projects totaling nearly 11,600 units are currently under construction in the market, nearly identical to the total from one year earlier.
- Multifamily permitting in Austin is on pace for a record-setting year. Developers pulled permits for approximately 21,400 multifamily units in the first three quarters of 2021, surpassing the total amount for all of 2020.
- **Forecast:** Apartment construction will remain active well into 2022. Developers are forecast to deliver approximately 5,600 units to the market in 2021, with an additional 7,500 units likely to come online in 2022.

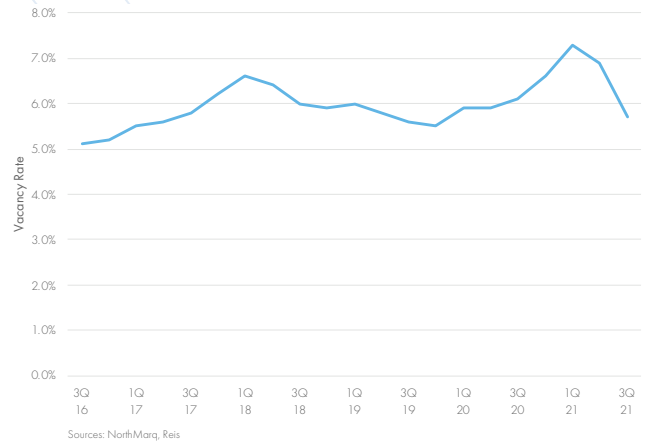
Vacancy

- During the third quarter, vacancy reached its lowest point in nearly two years, dropping 120 basis points to 5.7 percent.
- Local vacancy improved significantly in recent months. When comparing the second quarter of 2021 to 2020, vacancy was up 100 basis points. Following the drop from July to September, vacancy in the third quarter was down 40 basis points year over year.
- Improvements in vacancy are being led by some of Austin's largest submarkets. The Far South submarket recorded a vacancy drop of 130 basis points in the third quarter. The rate fell to 5.8 percent, 90 basis points lower than one year earlier.
- **Forecast:** Strong improvements to the vacancy rate during the third quarter have brightened the outlook for the end of the year. The vacancy was projected to drop an additional 20 basis points in the fourth quarter, ending 2021 at 5.5 percent, 110 basis points lower than the rate at the end of 2020.



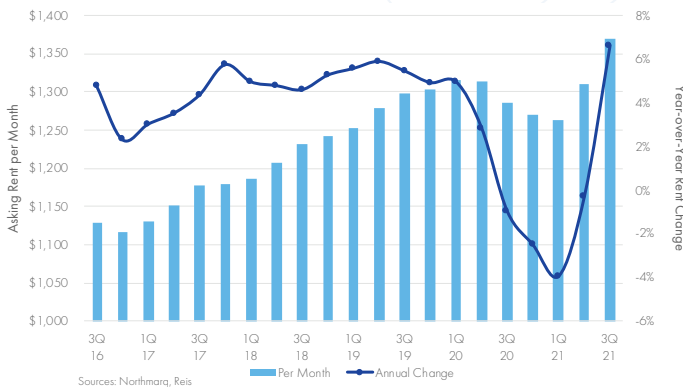
During the third quarter, the Austin vacancy rate fell 120 basis points to 5.7 percent.

Vacancy Trends



During the past 12 months, asking rents gained 6.6 percent.

Rent Trends



Rents

- Rents in Austin made a full recovery during the third quarter, surpassing pre-COVID levels. Asking rents jumped 4.6 percent in the third quarter, reaching \$1,370 per month.
- After rent growth surged in the third quarter, asking rents ended up higher than they were in the previous year. During the past 12 months, asking rents gained 6.6 percent.
- The recent rent increase was not limited to only higher-end properties. During the third quarter, asking rents in Class B and Class C properties increased by approximately 5 percent to \$1,032 per month.
- **Forecast:** After rents dipped during 2020, there was significant growth in the third quarter. By the end of 2021, rents were expected to reach \$1,397 per month, an increase of 10.3 percent.

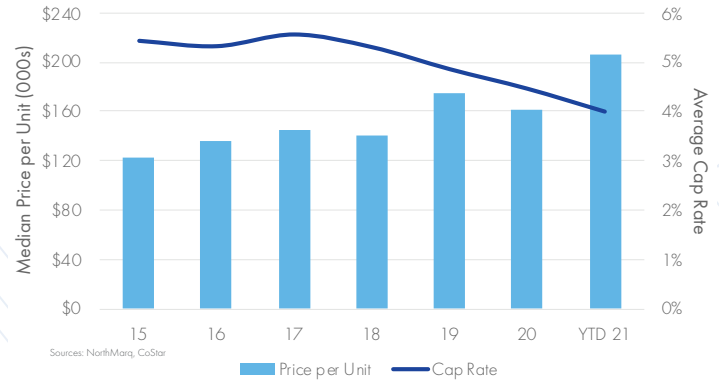
Multifamily Sales

- Transaction activity posted a moderate decline during the third quarter. Sales velocity in the third quarter was down 9 percent from levels recorded in the second quarter. Despite the decline in recent months, transaction activity during the first nine months of the year more than doubled the pace of deals recorded in the first nine months of 2020.
- In transactions where pricing is available, the median price through the third quarter of 2021 was \$205,800 per unit, up 27 percent from the median price in 2020.
- Cap rates in Austin have ticked down as investor demand remains strong. Cap rates averaged 4 percent through the third quarter, down 50 basis points from 2020 levels.



The median price through the third quarter of 2021 was \$205,800 per unit.

Investment Trends

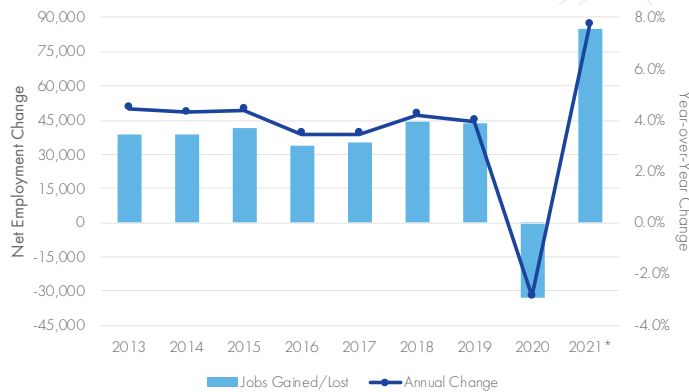


Looking Ahead

The Austin multifamily market is forecast to record some of the strongest and most dynamic employment growth in the country in the coming years, and these gains will support the local apartment market. The rental market recorded some softness in the period immediately following the COVID outbreak, even as the local labor market performed comparatively well. Much of the softening property performance was concentrated Downtown, where there was a considerable decline in demand for short-term rentals. With tourism traffic expected to regain momentum in 2022, and most other aspects of the local economy firing on all cylinders, the Austin multifamily market should strengthen in the coming quarters.

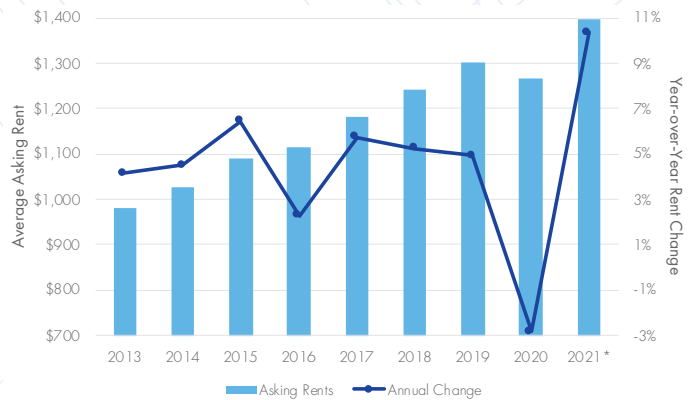
Austin is likely to remain a preferred market for investors seeking rapid growth to allocate capital for the next several periods. Any economic uncertainty that may have hung over the market in 2020 or 2021 has largely cleared, and the region is forecast to return to its previous upward trajectory. The pace of new development slowed in 2021 but is likely to pick up again in the year to come. Investors will likely assess the pace that new developments lease up to determine the overall strength of the market. The current forecast calls for a healthy amount of renter demand, particularly at the high end of the quality spectrum, which should be a signal for an active investment market.

Employment Forecast



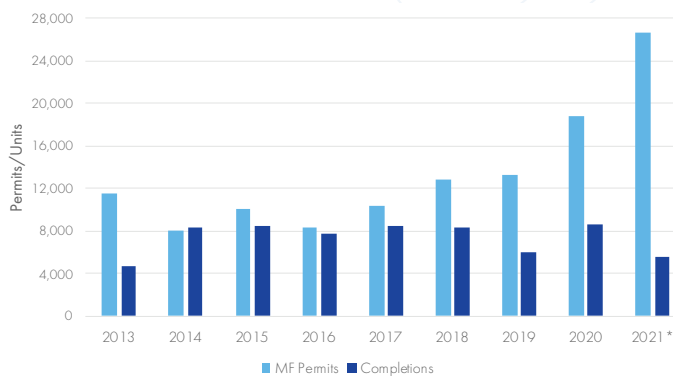
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



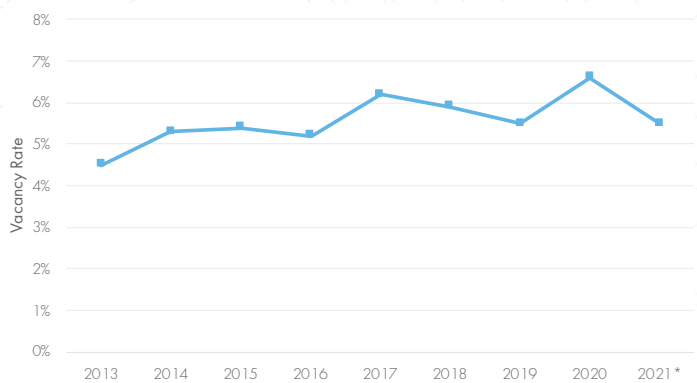
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis



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