MARKET REPORT

MULTIFAMILY

Austin Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

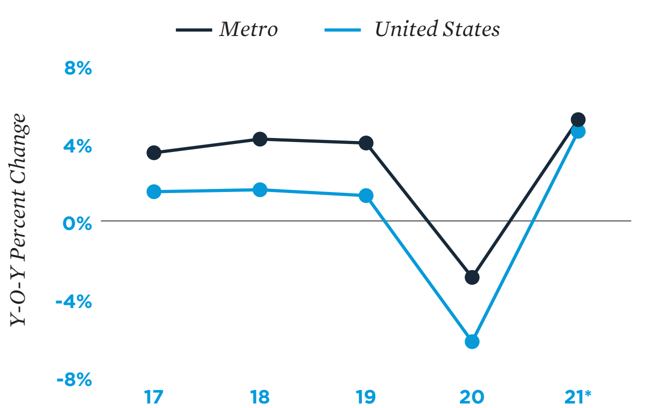
3Q/21

Demand Tailwinds Emerge for Downtown and University-Adjacent Rentals

Return to normalcy a boon for urban demand. Last year, renter preferences recalibrated after closures and restrictions reduced the allure of living downtown. Now, as entertainment districts like Sixth Street have reopened alongside museums, theaters and other urban amenities, more people are again choosing to live in the core. Additionally, students and staff at the University of Texas are searching for nearby residences, with current plans calling for at least 90 percent of classes to be held in person this fall semester. Furthermore, several law firms and insurance agencies signed on for downtown offices recently, and employees of these companies should boost the leasing of upper-tier rentals in the core. Renewed demand allowed vacancy to fall 400 basis points year over year in the Downtown-University submarket to 3.9 percent in June, fueling a nearly 10 percent annual rent surge.

Some submarkets face supply hurdles. Austin's inventory will expand by 4.9 percent in 2021, the fastest growth rate among major U.S. markets. This could weigh on rent in certain areas if demand fails to keep pace and operators utilize concessions to lure tenants. Challenges will be localized, though, within a few submarkets. Annual stock enlargements of 8 percent-plus are expected in East Austin, Round Rock-Georgetown and Riverside. Supply growth in East Austin may even exceed 18 percent this year. Nevertheless, the workforce of Tesla highlights improved demand drivers here, and new employers may be drawn, supporting household creation to help absorb the new supply.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2021 Outlook

57,000 JOBS
will be created

EMPLOYMENT:

The job count in Austin will surpass the total recorded in 2019 by more than 24,000 positions at the end of this year. An expansion of 5.2 percent will take place in 2021, the fastest annual growth rate in 15 years.

12,600 UNITS
will be completed

CONSTRUCTION:

Builders will finalize more rentals in the metro in 2021 than in any year on record dating back to at least 2000. This period's delivery volume will exceed the trailing-10-year annual average by 5,200 units.

90 BASIS POINT
decrease in vacancy

VACANCY:

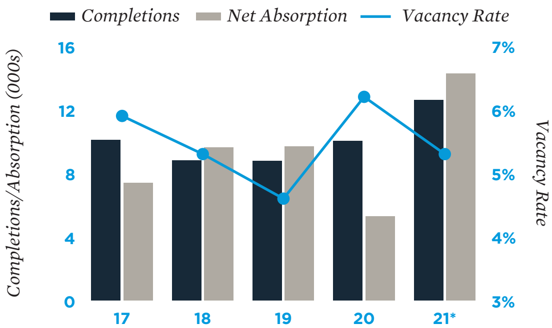
Net absorption will surpass the 14,000-unit threshold in 2021 and more than double last year's total. This will suppress vacancy to 5.3 percent at year-end, a rate that is down significantly from 2020 but 70 basis points above the level two years earlier.

10.5% INCREASE
in effective rent

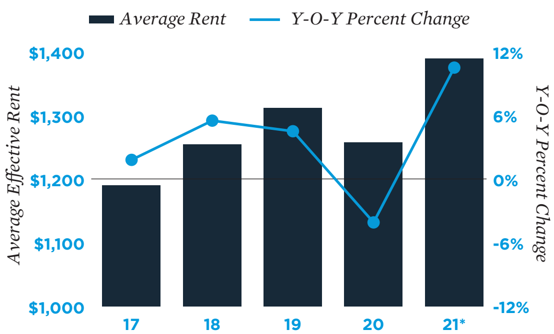
RENT:

Tighter vacancy and an influx of new luxury complexes will buoy rent growth this year. The average effective rate will be $1,390 per month at the end of 2021, picking up steam quickly after last year's 4.1 percent decline.

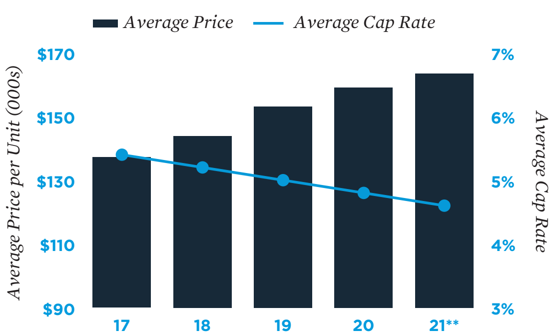
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

2Q21 — 12-Month Period

CONSTRUCTION

10,517 units completed

- Completions during the past 12 months ended in June grew stock by 4.1 percent, slightly above the previous year's 4.0 percent enlargement.
- Inventory in the Cedar Park submarket climbed by 10.8 percent during the past year, but construction is moderating. In 2020, almost 2,500 units finalized compared with 1,050 expected in the locale in 2021.

VACANCY

70 basis point decrease in vacancy Y-O-Y

- Class A vacancy subsided by 190 basis points over the past four quarters while Class B availability shrunk 60 basis points and Class C held flat. Overall, the vacancy rate fell to 5.1 percent in the second quarter.
- Far West Austin and San Marcos are suburban areas where availability plummeted by more than 150 basis points year over year.

RENT

6.9% increase in the average effective rent Y-O-Y

- In the second quarter alone the average effective rent jumped 7.1 percent, assisting in the strongest annual gain since early 2016, bringing the average monthly rate to $1,376 in June.
- The average Class A rent rose by 10.2 percent, leading the three tiers. Class C was the only segment to weaken, inching down 0.7 percent.

Investment Highlights

- Deal flow during the past 12 months has been largely supported by trading of Class A and B assets, with fewer lower-tier properties changing hands than in years past. Out-of-state investors are acquiring higher-quality apartments, as population and wage growth paired with relative resistance to the pandemic have bolstered the market's appeal.
- As upper-tier assets comprised a larger share of deals, the average sale price climbed 5 percent annually to $164,000 per unit. The average cap rate on apartments traded during the past 12 months ended in June was 20 basis points below the 2020 measure at 4.6 percent and preliminary data indicates compression has continued in the third quarter.
- Submarkets that registered improved trading activity include Cedar Park and Riverside. Buyers scouring these locales are concentrating on Class A/B apartments, which often trade above $190,000 per unit.
- Private investors seeking entry costs below the market average focus on Midtown neighborhoods such as Brentwood, as well as the suburb of San Marcos. Class C buildings in these areas trade with an average price per unit of $120,000, and often transact for under $10 million.

IPA Multifamily

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Price: $250