

# MARKET REPORT

Multifamily  
Austin Metro Area

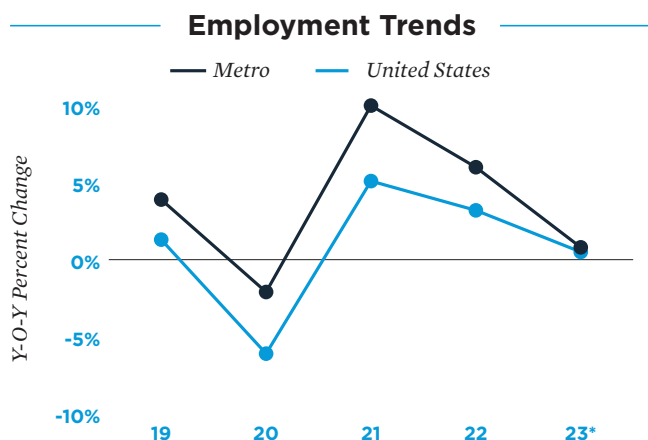
IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2Q/23

## Austin's Nation-Topping Population Growth Mitigates Long-Term Supply Wave Impact

**Growing millennial and Gen Z population backstops demand.** Similar to last year, an incoming supply wave will place upward pressure on vacancy as new units are added at an elevated pace. In 2023, the metro is set to record its highest year-over-year inventory change since at least 2000. This increase in available units will create near-term pressure on vacancy, raising the rate from record lows reached in the first half of 2022. Austin is also expected to note the greatest pace of population growth among all major U.S. markets in 2023. The age 20 to 34 cohort makes up a significant portion of this gain. Given that younger people are historically predisposed to renting — a preference strengthened by Austin's heightened homeownership costs — this expanding residential group will likely stay in the renter pool for longer, aiding property performance long-term and validating the ample construction pipeline. Total net absorption in Austin will still be higher than most other major markets in 2023.

**Lower-cost areas poised to receive demand.** Strong net in-migration to Austin has benefited outer cities connecting the market to San Antonio as the metros become increasingly intertwined. In March 2023, San Marcos had a vacancy rate lower than the overall metro and the lowest mean effective rent, exhibiting the draw of well-connected, cost-efficient locations. Some urban areas with limited pipelines are also well-positioned, such as Northwest Austin, where Apple is expected to begin Phase 2 of its campus in September, creating high-paying jobs and benefiting Class A and B rentals.



\* Forecast

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

## Multifamily 2023 Outlook



**10,000  
JOBS**

*will be created*

### EMPLOYMENT:

Following last year's gain of 73,500 positions and early job creation in 2023, the pace of headcount growth is expected to slow. Total employment will only expand by 0.8 percent, particularly as the information and technology sector faces headwinds.



**19,000  
UNITS**

*will be completed*

### CONSTRUCTION:

Inventory in Austin will expand by 6.7 percent, adding over 4,000 more units than last year's delivery count. East Austin and Round Rock-Georgetown are slated to receive the largest volume of deliveries in 2023.



**80  
BASIS POINT**

*increase in vacancy*

### VACANCY:

Net absorption surpasses 15,400 units, but record supply additions incite a further rise in vacancy, driving the rate to 6.7 percent. This advance may, however, be near-term as demand drivers are sustained.



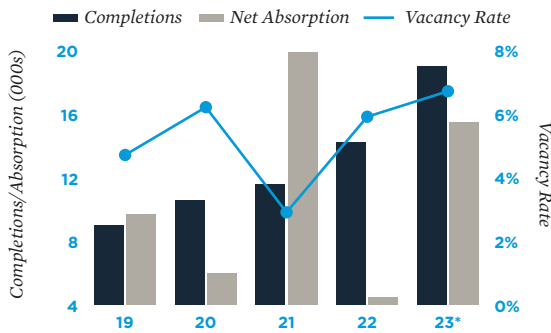
**2.0%  
INCREASE**

*in effective rent*

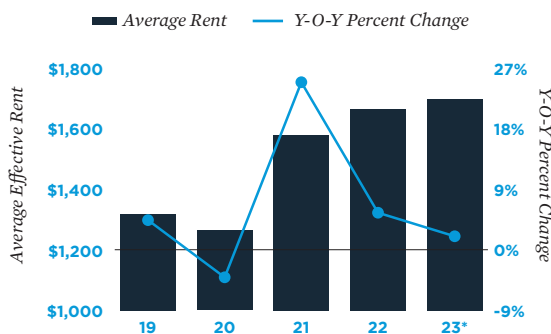
### RENT:

Rent gains will continue through 2023, albeit at a more moderate pace compared to 2022, with the average effective rate reaching \$1,699 per month. This will be nearly 30 percent higher than the pre-pandemic high recorded at the end of 2019.

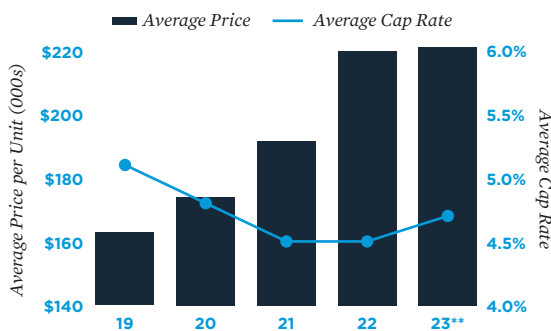
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 1Q

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

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Price: \$250

## 1Q 2023 - 12-Month Period

### CONSTRUCTION

**13,528 units completed**

- Inventory expanded by 4.6 percent during the 12-month period ending in March, just below the previous span's 4.8 percent rise.
- Approximately 3,440 units came online in the first three months of 2023, giving Austin the seventh-highest quarterly increase in stock among U.S. markets. Developers continue to focus on fast-growing suburban areas.

### VACANCY

**360 basis point increase in vacancy Y-O-Y**

- After logging a two-decade low in the first quarter of 2022, vacancy continues its steady return to more historically consistent and sustainable levels.
- At the end of March, availability ticked up to 6.4 percent, the highest level since the same month of 2018. The first quarter rate sits 70 basis points above Austin's long-term average.

### RENT

**2.9% increase in the average effective rent Y-O-Y**

- In the yearlong interval, the mean effective rent rose to \$1,659 per month. This was the slowest 12-month increase since the same period in 2021.
- Rent growth in most submarkets began to subside in 2023, with only North Central Austin recording an annual increase above 5 percent, due in part to supply-side pressures limiting local rental competition.

## Investment Highlights

- Heightened competition across the last five years enabled the average sale price per unit in Austin to increase by over 40 percent. In the trailing 12 months ended in March, the figure was the highest in Texas by over \$40,000 per unit. Transaction velocity, however, notably slowed in the first quarter of 2023 as investors faced macroeconomic uncertainty and an unclear lending environment. Trading activity could nevertheless pick back up as investors look to capture proceeds from recent price appreciation.
- Transactions involving Class A assets slowed in the second half of 2022. Still, there were pockets of deal flow extending through the end of the year. One submarket that has been increasingly targeted by buyers is Northeast Austin, an area with a high concentration of well-paying tech jobs. While the tech sector faced headwinds entering 2023, several companies have continued to expand in the area, such as Apple, aiding long-term demand.
- The University of Texas at Austin welcomed its largest incoming class in the fall of 2022. Entering the second quarter, vacancy in the Downtown-University area was the second lowest of Austin's submarkets, with at least 20,000 units of apartment inventory. The stable rental demand drivers provided by the university may be compelling during a period of economic headwinds.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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