

# Austin Multifamily




## Business Development Bolsters Investor Confidence in Austin

### Highlights

- > The Austin multifamily market was impacted by an active pace of supply growth, which dragged on market fundamentals in a year filled with economic volatility. Conditions are forecast to improve significantly in 2021, as businesses reopen and consumers release pent-up demand.
- > Apartment vacancy in Austin rose 50 basis points in the fourth quarter and the figure spiked 110 basis points in 2020. The rate ended the year at 6.6 percent.
- > Following more than a decade of consistent growth, apartment rents recorded a pullback in 2020. Asking rents in Austin declined 2.8 percent, ending the year at \$1,266 per month. Areas located in and near the urban core recorded the most significant rent contractions, mirroring nationwide trends.
- > The Austin investment market closed the year on an upswing. Transaction activity spiked in the fourth quarter while sales prices rose during the same time. Cap rates were mostly stable throughout the year.

### Austin Multifamily Market Overview

Austin's labor market was far steadier than most other parts of the country in 2020, and the companies that expanded in the area offset nearly all the pandemic-related job losses. Local economic development groups tracked more than 100 business expansion or relocation announcements in Austin during 2020, which are expected to create at least 20,000 local jobs in the coming years. While the outlook for the next several years calls for a great deal of growth, 2020 was a year in which multifamily supply growth outpaced demand, causing vacancies to rise and rents to dip.

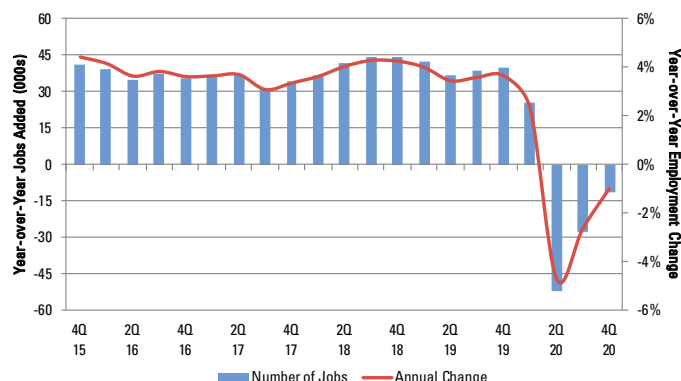
Q4 Snapshot	Austin Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>6.6%</b>
	- Year Over Year Change ..... <b>+110 bps</b>
	Asking Rent ..... <b>\$1,266</b>
	- Year Over Year Change ..... <b>-2.8%</b>
	<b>Transaction Activity*</b>
	Median Sales Price Per Unit (YTD) ..... <b>\$161,500</b>
	Cap Rates (Avg YTD) ..... <b>4.5%</b>
	<b>Construction Activity</b>
	Units Under Construction ..... <b>11,295</b>
	Units Delivered YTD ..... <b>7,637</b>
	<small>*In transactions where pricing is available</small>

As interest rates compressed, the Austin investment market gained momentum in the second half of 2020, following a slower start to the year. The fourth quarter marked the strongest period of investment performance, with activity spiking and prices pushing higher in transactions where pricing data was available. In 2020, there was a larger share of transactions involving suburban properties, where prices are generally lower than in the downtown city core. Cap rates averaged approximately 4.5 percent in 2020, 40 basis points lower than the average in 2019.

## Employment

- > While nearly all major markets recorded significant employment contractions in 2020, Austin's labor market was among the most resilient. Initial job cuts were less severe than at the national level, and roughly 90 percent of the losses have been recovered. Total employment finished 2020 down just 1 percent, with a net loss of roughly 11,000 jobs.
- > One reason the Austin market was insulated from a wave of job losses was continued expansion in some of the region's core industries. This was most apparent in the financial activities sector, which added approximately 2,000 jobs in 2020. Growth in the sector has spiked by 60 percent in the past decade.
- > In December, Austin-based grocer Whole Foods broke ground on a corporate headquarters expansion downtown, directly behind its existing flagship store and headquarters. The \$38 million project will produce a new 144,000-square-foot office building and create about 600 new jobs when the facility opens later this year.
- > **Forecast:** The Austin labor market is one of the most dynamic in the country, and healthy growth is likely in 2021. Local employers are forecast to expand payrolls by 4 percent in the coming year, with the addition of about 45,000 net jobs. These gains should support absorption of approximately 10,000 units.

## Employment Overview



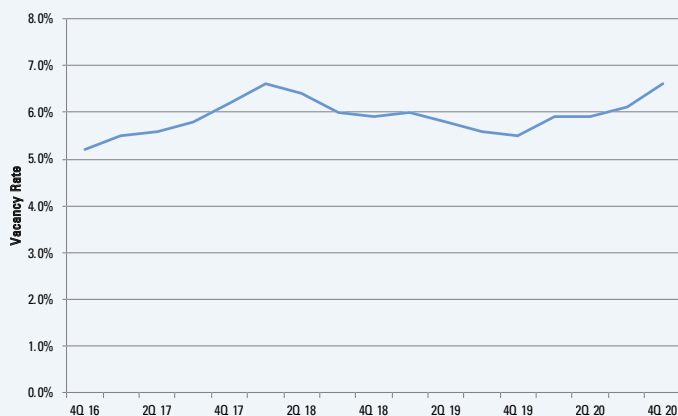
Sources: NorthMarq, Bureau of Labor Statistics

*Local employers are forecast to expand payrolls by 4 percent in the coming year*

## Vacancy

- > During the fourth quarter, the local vacancy rate spiked 50 basis points to 6.6 percent. Absorption cooled a bit at the end of the year while the pace of deliveries accelerated.
- > Year over year, vacancy in Austin increased 110 basis points. The current vacancy rate matches the cyclical peak recorded at the beginning of 2018. Vacancy will likely tighten in the coming quarters as absorption gains momentum.
- > The economic disruption caused by the COVID-19 outbreak slowed the pace of renter demand in 2020. Net absorption of area apartments totaled approximately 4,750 units in 2020, down 25 percent from levels in 2019.
- > **Forecast:** While apartment construction is projected to remain elevated, renter demand is expected to return closer to averages from the past several years. Austin's vacancy rate is forecast to decline 30 basis points in 2021, finishing at 6.3 percent.

## Vacancy Trends



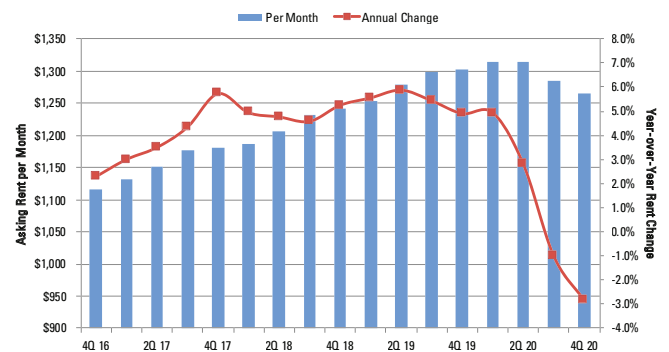
Sources: NorthMarq, Reis

*Vacancy ended 2020 at 6.6 percent, up 110 basis points from the end of 2019*

## Rents

- > After a steep decline in the third quarter, apartment rents retreated again at the end of the year. Asking rents dipped 1.5 percent from the third quarter to the fourth quarter, finishing 2020 at \$1,266 per month.
- > With competition coming from new supply, operators lowered rents in efforts to retain tenants. Year over year, asking rents in Austin fell 2.8 percent, with the decline occurring entirely in the second half.
- > Rents in the Downtown area have been among the most affected by the decline in short-term rentals and the shift toward remote work. In 2020, apartment rents in the Central submarket receded 8.4 percent to \$1,561 per month. Asking rents in Central Austin are poised to recover during 2021, as more businesses transition from remote working back to in-person work.
- > **Forecast:** Rents in Austin are expected to return to an upward trajectory, offsetting the decline from 2020. Apartment rents in Austin are forecast to advance roughly 3.2 percent, eclipsing \$1,300 per month by the end of 2021.

## Rent Trends



Sources: NorthMarq, Reis

*Asking rents finished 2020 at \$1,266 per month*

## Development and Permitting

- > Apartment construction maintained an active pace, and developers brought nearly 1,600 units online in the fourth quarter. Developers delivered more than 7,600 multifamily units in 2020, similar to the average annual totals from 2014 to 2019.
- > Projects totaling approximately 11,300 units are currently under construction in the Austin area. The largest share of development is in West Austin, with about 18 percent of ongoing construction occurring in the submarket.
- > Developers remain active in the Austin multifamily market, and permitting surged throughout the year. In 2020, permits for approximately 18,800 multifamily units were pulled, an increase of 40 percent from 2019, which had previously been a record total.
- > **Forecast:** Apartment construction is expected to closely track levels from 2020. Projects totaling nearly 7,600 multifamily units are forecast to deliver in the Austin area during 2021.

## Development Trends



\* Deliveries YTD  
Sources: NorthMarq, Reis

*More than 7,600 multifamily units were delivered in 2020*

## Multifamily Sales

- > Sales velocity accelerated in consecutive quarters to close 2020. After gaining momentum during the third quarter, transaction activity increased an additional 50 percent in the fourth quarter. Despite the strong finish, investment activity for the full year declined nearly 25 percent from 2019.
- > Prices increased as activity accelerated, and the median price in deals traded during the fourth quarter rose to \$181,500 per unit. In transactions where pricing information is available, the median price in the full 2020 calendar year was \$161,500 per unit, a decline of 8 percent from the prior year.
- > Cap rates in Austin compressed in 2020, averaging 4.5 percent, down 40 basis points from 2019.

## Investment Trends



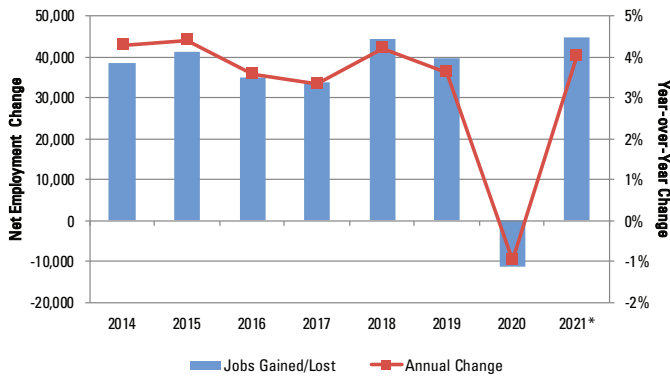
*Transaction activity increased 50 percent in the fourth quarter*

## Looking Ahead

The Austin multifamily market is forecast to strengthen in 2021, with renter demand likely to be fueled by strong employment and economic growth. Job losses in Austin over the past year were far more modest than in nearly every other major market in the country, so there is less of a hole to dig out of. In the coming months, growth should strengthen as the economy fully reopens, and consumers release some pent-up demand. One area where Austin thrived even during the economic volatility of 2020 was business attraction and expansion, highlighted by Tesla's newest Gigafactory, which is set to open by the end of 2021.

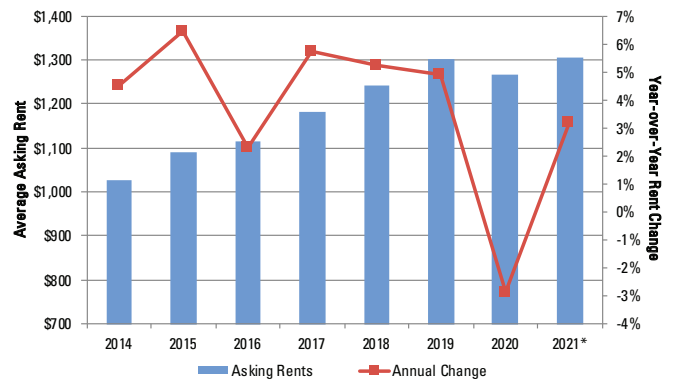
The strengthening sales velocity that occurred at the end of 2020 set the stage for healthy levels of investment activity in the year to come. Investors are expected to be drawn to the market by both the short-term and long-term growth potential in the market. The strong investor demand has pushed cap rates lower during the past few years, but with interest rates likely to push higher, cap rates are unlikely to compress further. With rents forecast to push higher and occupancies likely to rise, prices could push higher even if cap rates hold steady.

### Employment Forecast



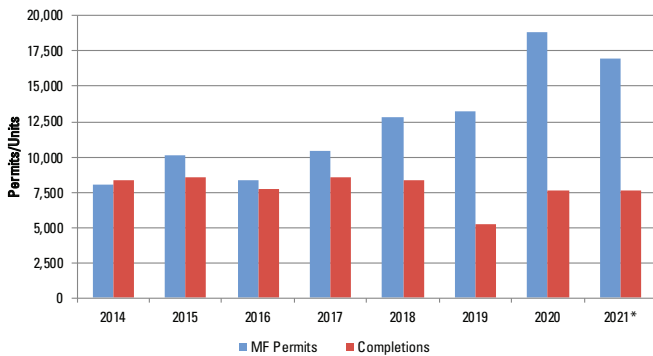
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



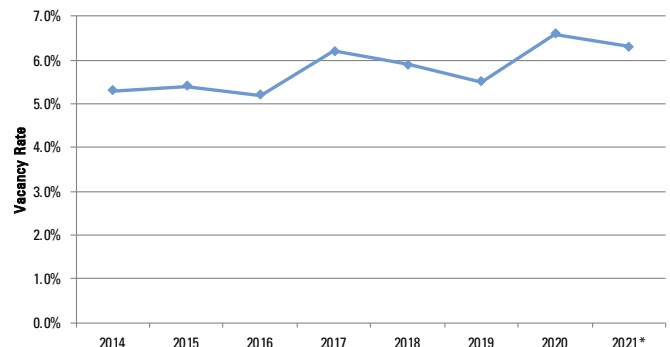
\* Year End Forecast  
Sources: NorthMarq, Reis

### 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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