Market Insights

Greater Austin Multifamily 2Q 2022

Northmarq

Construction Activity

19,315

Units under construction

4,975

Units delivered (YTD)

Market Fundamentals

4.6%

Vacancy

-230bps | Year over year change

$1,516

Asking Rent

+15.7% | Year over year change

Transaction Activity*

$260,400

Median sales price per unit (YTD)

* In transactions where pricing is available

Market Vacancies Reach Lowest Level Since 2014

Highlights

- Strong renter demand for apartments in Austin drove down vacancy rates and fueled rent growth during the second quarter. Improving conditions carried over into the investment market where transaction activity gained momentum and prices rose.
- After improving throughout 2021, the vacancy rate continued to decline during the first half of 2022. Since the end of last year, area vacancies have improved by 70 basis points, falling to 4.6 percent. Year over year, the vacancy rate has tightened by 230 basis points.
- Rents continued to trend higher in Austin; asking rents are up 15.7 percent from one year ago, ending the second quarter at $1,516 per month. Year to date, asking rents have pushed 4.6 percent higher.
- Investment activity surged in the second quarter, rising more than 40 percent from the first three months of the year. In transactions where pricing was available, the median price in 2022 has reached $260,400 per unit, while cap rates averaged 3.7 percent.

Austin Multifamily Market Overview

Nearly all operating conditions in the Austin multifamily market strengthened during the second quarter. The local vacancy rate tightened for the fifth consecutive quarter with the rate reaching its lowest point since 2014. The improving vacancy rate has allowed operators to continue to raise rents across the region. Developers remain active, and with more than 19,000 units currently under construction, there will be a continued flow of new projects entering the market. The global outlook suggests a period of sluggish economic growth in the coming quarters, but the Austin economy could avoid much of this slowing if the large businesses that have committed to adding thousands of jobs in the region maintain their hiring plans.

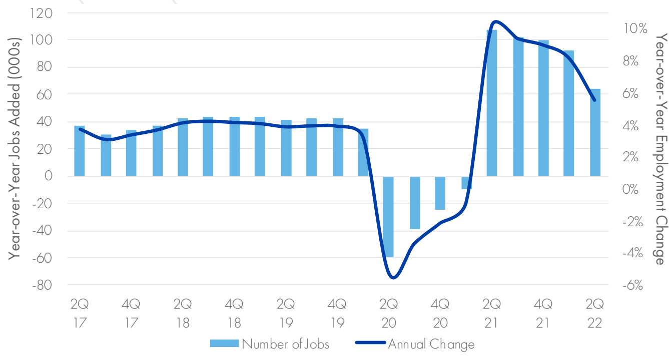
Investment trends in Austin reflected the healthy operating conditions in the area. Transaction activity picked up from the previous quarter, and sales levels year to date are ahead of the pace recorded in the first half of 2021. The best indicator of investor demand can be reflected in the spike in per-unit pricing. When compared to 2021, the median sales price was 25 percent higher in transactions where pricing information was available. Additional signals of the region's healthy investment climate and positive market sentiment are the breadth of transactions, with properties changing hands in nearly every submarket and continued land acquisitions for future multifamily development.

Employment

- Employers in Austin continued to add workers at a healthy pace during the second quarter. In the past three months, employers added more than 7,000 jobs. Year over year, area payrolls have expanded by 5.5 percent, a gain of 64,200 jobs.
- The trade, transportation, and utilities sector has accounted for more than 15 percent of total job growth in the past year. Employment in this industry increased by 5.8 percent in the past 12 months with the addition of nearly 11,000 workers.
- TikTok, the video-based social media platform, recently leased 125,000 square feet of office space in Downtown Austin. To this point, the expansion has resulted in 100 new jobs, however, the company plans to hire more than 600 additional employees in Austin going forward.
- **Forecast:** The Austin labor market is expected to grow at a healthy pace through the remainder of this year. Employers are on pace to add approximately 40,000 workers to payrolls in 2022, an expansion of 3.3 percent.

“ Year over year, area payrolls have expanded by 5.5 percent.

Employment Overview



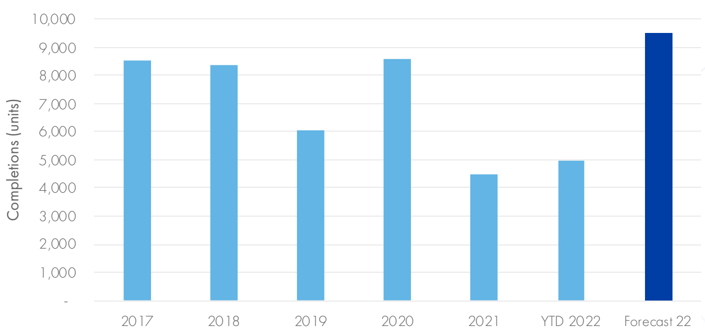
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

- Developers delivered nearly 5,000 units to the Austin market during the first half of the year, including about 2,700 units that came online in the second quarter. Projects totaling approximately 3,750 units were delivered in the first half of 2021.
- Developers are trying to capitalize on the ongoing renter demand by ramping up the construction of apartment buildings. Projects totaling more than 19,300 units are currently under construction in Austin, doubling the figure from one year ago.
- To this point in 2022, developers have pulled permits for approximately 12,800 multifamily units, down 8 percent from the levels recorded one year ago.
- **Forecast:** With construction activity elevated, deliveries are expected to remain active in the second half of the year. Developers are forecast to deliver nearly 9,500 units in 2022, after fewer than 4,500 units came online last year.

“ Projects totaling more than 19,300 units are currently under construction.

Development Trends



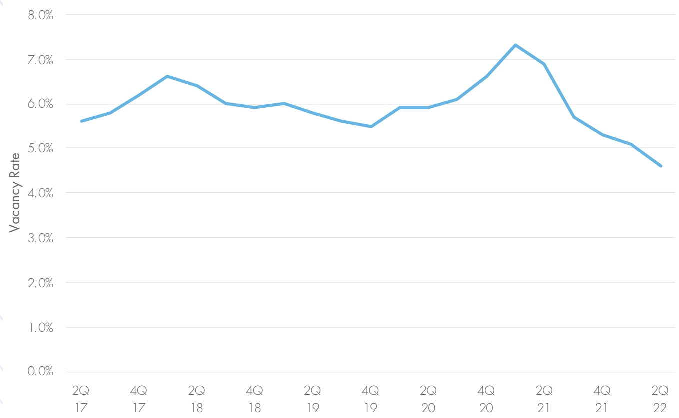
Sources: Northmarq, Reis

Vacancy

- The vacancy rate continued to trend lower in the second quarter, falling 50 basis points to 4.6 percent. This was the fifth consecutive quarter where market vacancies tightened, and the current rate is at its lowest point since 2014.
- Robust renter demand has caused vacancy rates to tighten among Austin multifamily properties. In the past year, area vacancies have improved by 230 basis points, the largest year-over-year improvement in more than a decade.
- There is consistent demand for all forms of housing in Austin but nearly no supply growth outside of Class A buildings. As a result, the lowest vacancy rates are being recorded in Class B and Class C properties. The combined average vacancy in Class B and Class C properties ended the second quarter at 4.3 percent, down 100 basis points from one year ago.
- **Forecast:** Supply growth is expected to outpace absorption levels in the remainder of 2022, causing a modest uptick in vacancies. The rate is expected to end the year at 4.8 percent, down 50 basis points from the figure recorded at the end of 2021.

> “ Year over year, area vacancies have improved by 230 basis points.

Vacancy Trends



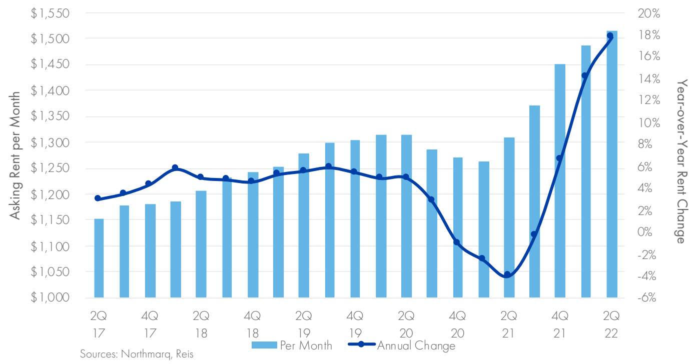
Sources: NorthMarq, Reis

Rents

- Elevated demand conditions continued to support rent increases in the first half of this year. During the second quarter, asking rents in Austin advanced 2 percent, rising to $1,516 per month. This followed a 2.6 percent rent increase in the first quarter.
- Following rapid rent growth in recent quarters, local asking rents increased by 15.7 percent during the past 12 months. Rent growth in Austin has generally been among the fastest in the country, but recent spikes have doubled or tripled the rates of past annual increases.
- Some of the most significant rent increases are being recorded in Austin's largest submarket, the Far South, which includes neighborhoods such as South Congress and Sweetbriar. Asking rents in the Far South submarket reached $1,644 per month during the second quarter, an increase of 19.4 percent compared to rents recorded in the area one year ago.
- **Forecast:** The current pace of rent growth is expected to slow from the rapid gains recorded in the past 18 months. Asking rents in Austin are forecast to advance more than 7 percent in 2022, ending the year at nearly $1,560 per month.

> “ Local asking rents increased by 15.7 percent during the past 12 months.

Rent Trends



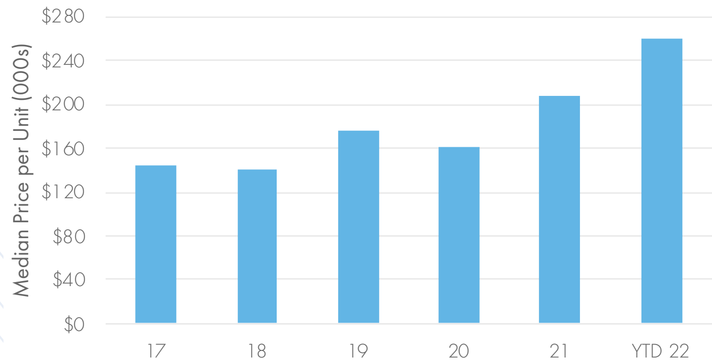
Sources: Northmarq, Reis

Multifamily Sales

- Investment activity in Austin has remained active through the first half of this year, although transaction counts have not matched levels recorded at the end of 2021. Sales velocity rose more than 40 percent from the first quarter to the second quarter, and the number of properties that sold in the first half of this year is up 8 percent from the 2021 pace.
- Favorable operating conditions have caused prices to push higher in 2022. In transactions where pricing was available, the median price of sales that traded during the first six months rose to $260,400 per unit, an increase of 25 percent from 2021.
- Cap rates averaged approximately 3.7 percent in the first half, up about 20 basis points from levels at the end of last year. The continued competition in the investment market and forecasts for additional rent growth are expected to keep cap rates low in the coming quarters.

Sales velocity rose more than 40 percent from the first quarter to the second quarter.

Investment Trends



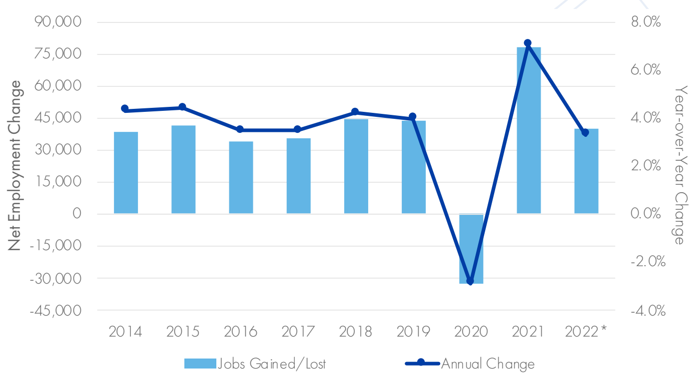
Sources: NorthMarq, CoStar

Looking Ahead

The strong property performance recorded in the first half of 2022 has set the stage for additional growth in the Austin multifamily market through the remainder of the year. Demand is expected to remain elevated, fueled by a labor market that continues to add workers and rapid population growth. The local population expands by an average of more than 55,000 residents per year, including net in-migration of about 40,000 net new residents. On the supply side, deliveries of new units will remain elevated throughout the next few years as developers attempt to keep up with demand. The result will likely be a few periods where the vacancy rate fluctuates, particularly in submarkets where construction is most active, such as Round Rock/Georgetown and the North Travis County/Pflugerville area.

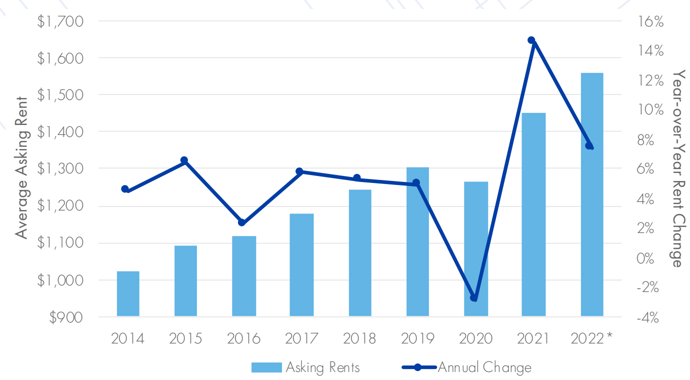
Austin has become one of the top-performing multifamily markets in the country due to population growth and corporate expansion. This activity continues to spur new development and attract investment capital. New construction projects have consistently accounted for between 20 and 30 percent of property sales in recent years. That trend should continue as investors seek to acquire some of the region's newest properties in a period where renter demand is elevated, and rents are posting rapid increases. With properties that are still in lease-up likely to account for a portion of total sales, not all transactions will be priced based on in-place cap rates. In sales of stabilized properties, cap rates could edge higher in response to increased borrowing costs.

Employment Forecast



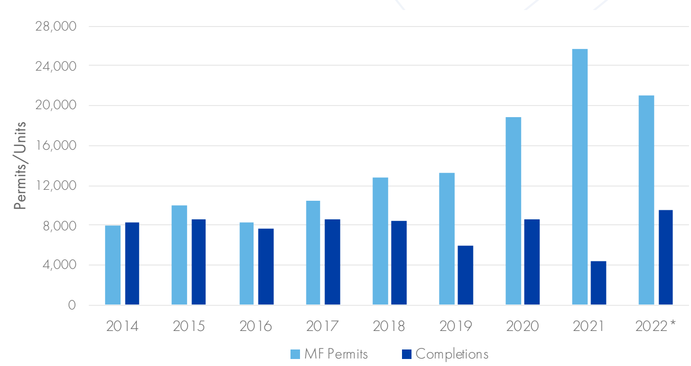
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



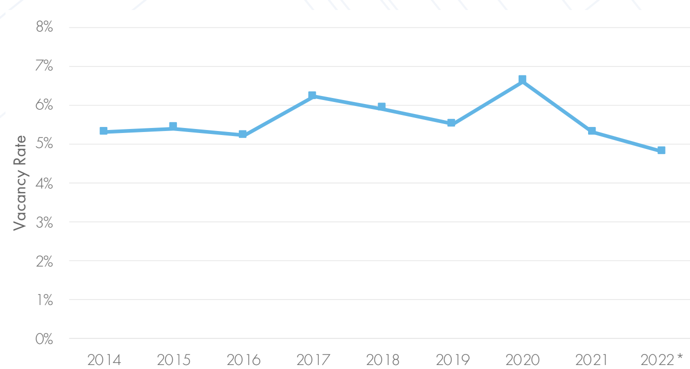
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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