

# Market Insights

Greater Austin Multifamily 3Q 2022



## Construction Activity



**20,899**

Units under construction

**6,183**

Units delivered (YTD)

## Market Fundamentals



**5.1%**

Vacancy

**-60**bps

Year over year change

**\$1,546**

Asking Rent

**+12.9%**

Year over year change

## Transaction Activity\*



**\$221,700**

Median sales price per unit (YTD)

# Vacancy Pushes Higher Following Extended Decline

## Highlights

- Multifamily developers continued to bring new projects online during the third quarter, ultimately pushing the vacancy rate higher. While vacancy rose in recent months, asking rents trended higher at a steady pace.
- After falling for five consecutive quarters, the vacancy rate increased in the last three months, rising 50 basis points during the third quarter to 5.1 percent. Year over year, the rate improved by 60 basis points.
- Asking rents in Austin continued to push higher in recent months, rising 2 percent during the third quarter to \$1,546 per month. Year over year, local apartment rents are up 12.9 percent.
- The pace of multifamily transactions slowed by 35 percent from the second quarter to the third quarter. In sales where pricing was available, the median price to this point in 2022 is \$221,700 per unit, up 7 percent from the median price in 2021.

## Austin Multifamily Market Overview

The Austin multifamily market recorded a mixed performance during the third quarter as vacancy rose for the first time in nearly two years and asking rents continued to climb. Local vacancy trended higher in recent months after falling by more than 250 basis points since the beginning of 2021. Despite the recent uptick, the rate remains well below the region's long-term average, allowing operators to continue to raise rents. Apartment rents pushed higher for the sixth consecutive quarter, and annual gains have exceeded 10 percent in each of the past four quarters. The strong performance and expectations for future demand are driving supply growth; multifamily developers are working on new projects throughout the region with nearly 21,000 units currently under construction.

Investment demand for local multifamily properties remains heightened, but there is some uncertainty about the impact of higher capital costs on cap rates. Sales activity showed some signs of cooling during the third quarter. While the number of properties changing hands continued to decline in the last three months, deals are still taking place. Transactions occurred throughout the metro area to this point in the year, with a concentration of activity in Northeast Austin and Riverside. In sales where pricing was available, the median sales price through the third quarter was \$221,700 per unit, up 7 percent from the median price in 2021. The transaction mix in the last three months consisted almost entirely of Class A and Class B assets, a common trend in Austin that reflects the sale of many newly constructed projects.

\* In transactions where pricing is available

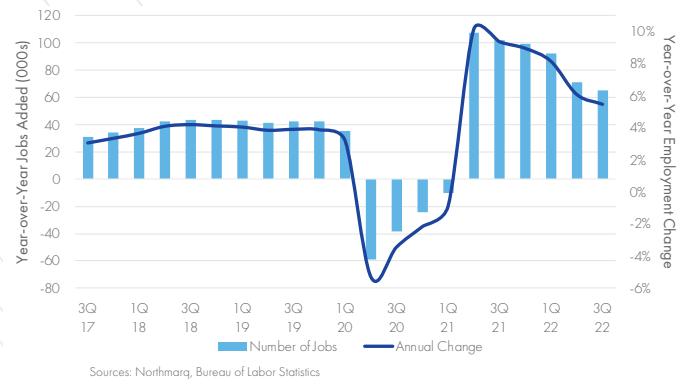
## Employment

- Employment growth in Austin accelerated in the third quarter with the addition of 19,100 jobs during the period. Year over year, the local labor market expanded by more than 65,000 positions, a gain of 5.5 percent.
- Austin’s large, high-wage, white-collar industries continue to drive growth in the region. The professional and business services sector has grown by 7 percent in the past year, adding 17,000 jobs.
- Aerospace and defense technology company, BAE Systems, recently opened its new \$150 million engineering and production facility in Austin. The 390,000-square-foot site is located in Parmer Austin Business Park in the Northeast submarket and will bring 100 high-paying jobs to the region within the next year.
- **Forecast:** Area employers are expected to continue to add jobs at a healthy pace to close this year, setting the stage for additional gains in 2023. The Austin labor market is on pace to add 55,000 workers in 2022, an annual increase of 4.5 percent.



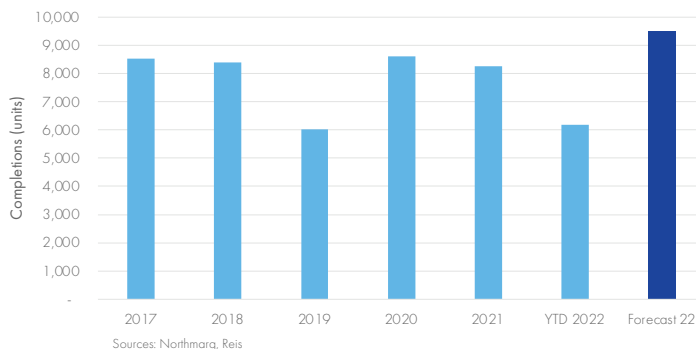
Employment growth in Austin accelerated in the third quarter.

### Employment Overview



Year to date, projects totaling nearly 6,200 units have been completed.

### Development Trends



## Development and Permitting

- Developers continued to bring new projects online during the third quarter with the completion of more than 1,200 units. Year to date, projects totaling nearly 6,200 units have been completed.
- Projects totaling approximately 20,900 multifamily units are currently under construction throughout the Austin area, up 80 percent from one year ago. Several projects currently under construction are slated to be completed by year end.
- Permitting slowed in recent months as developers pulled permits for 4,475 multifamily units during the third quarter, down from 8,300 permitted units in the second quarter. Year to date, developers have pulled permits for nearly 18,300 units, down about 6 percent from the same period in 2021.
- **Forecast:** Projects totaling approximately 9,500 units are forecast to be delivered this year, up 18 percent from the market’s long-term average. Developers are bringing new projects to the market to meet rapid population growth and renter demand for housing.

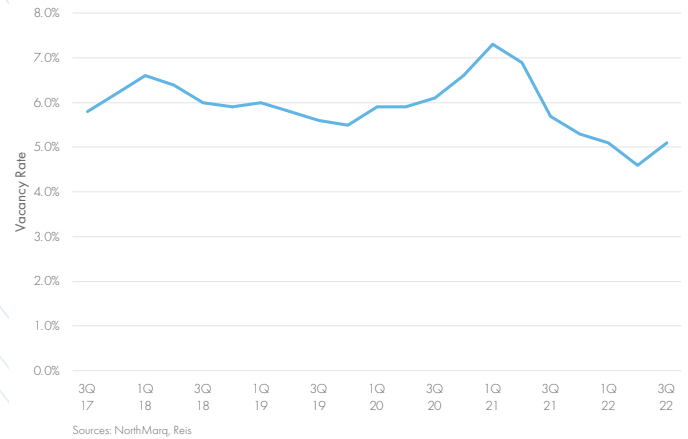
## Vacancy

- The vacancy rate trended higher during the third quarter after falling to an eight-year low in the previous period. The rate rose 50 basis points in the last three months to 5.1 percent. Vacancy averaged 5.9 percent from 2017 to 2021.
- Year over year, local vacancy improved by 60 basis points. While vacancy tightened throughout the metro area in recent quarters, some of the strongest improvements occurred in the San Marcos/ North Hays County submarket, where the vacancy rate tightened by 200 basis points in the past year to 4.5 percent.
- Most of the vacancy improvements in the past 12 months occurred in upper-tier properties. The vacancy rate in Class A units dropped 70 basis points in the last year to 5.3 percent. With Class A vacancies low and absorption elevated, developers will continue to move new projects through the pipeline.
- **Forecast:** The vacancy rate is expected to inch higher in the coming months, finishing 2022 at 5.3 percent, matching the figure from the end of 2021. This rate is near the low-end of the market's average vacancy rate; vacancy in Austin has not closed a year below 5 percent since 2013.



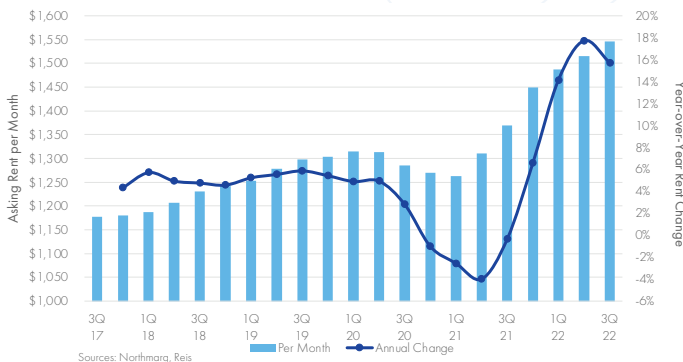
Year over year, local vacancy improved by 60 basis points.

### Vacancy Trends



Year over year, local apartment rents climbed 12.9 percent.

### Rent Trends



## Rents

- Asking rents in Austin continued to increase during the third quarter, marking its sixth consecutive period of healthy growth. During the past three months, average rents rose 2 percent to \$1,546 per month.
- Although the pace of rent growth is not repeating the rapid gains recorded during 2021, rents continue to rise at a healthy rate. Year over year, local asking rents climbed 12.9 percent, one of the strongest gains in the nation.
- Austin's most expensive submarket, Central, has recorded significant gains in recent quarters. During the past 12 months, asking rents in the Central submarket rose 10.8 percent to \$1,968 per month. The Central submarket includes dozens of high-rise apartments that command some of the highest rents in the market.
- **Forecast:** Apartment rents in Austin are projected to trend higher at a more modest pace in the fourth quarter. Local asking rents are expected to rise nearly 8 percent in 2022 to \$1,565 per month.

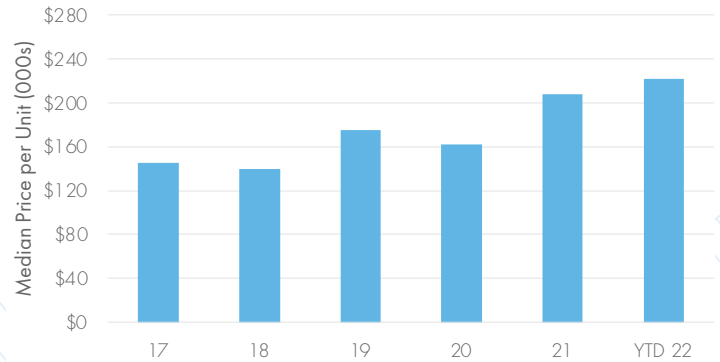
## Multifamily Sales

- The rising interest rate environment has restricted some transactions in recent months. The number of properties that traded in Austin during the third quarter declined 35 percent from the previous period. Additionally, deal volume year to date is down roughly 13 percent from the same period last year.
- Prices have come down slightly in recent months but remain above last year's figure. In transactions where pricing was available, the median sales price thus far in 2022 is nearly \$221,700 per unit, up 7 percent from the median price in 2021.
- Cap rates have inched higher in recent months. After remaining between 3.5 percent and 3.75 percent in the first half of the year, cap rates averaged around 4 percent during the third quarter.



The median sales price thus far in 2022 is nearly \$221,700 per unit.

### Investment Trends



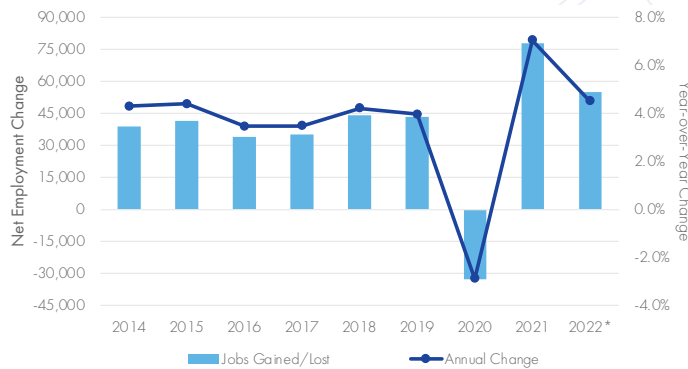
Sources: NorthMarq, CoStar

# Looking Ahead

With vacancy remaining relatively low and asking rents continuing to record strong gains, the multifamily market in Austin is set to finish the year on a fairly high note, stabilizing the outlook for 2023. Gains in the coming quarters will occur at a much more modest pace than in prior periods. Supply growth could outpace net move-ins in the coming months, resulting in a modest uptick in the vacancy rate. While the pace of supply is predictable, the most uncertainty surrounds renter demand. Austin is well-positioned for continued demand growth as companies continue to bring thousands of jobs to the regions through relocations and expansions. The national economy could cool in 2023, however, which would likely restrict the overall pace of growth and could delay demand into the second half of next year.

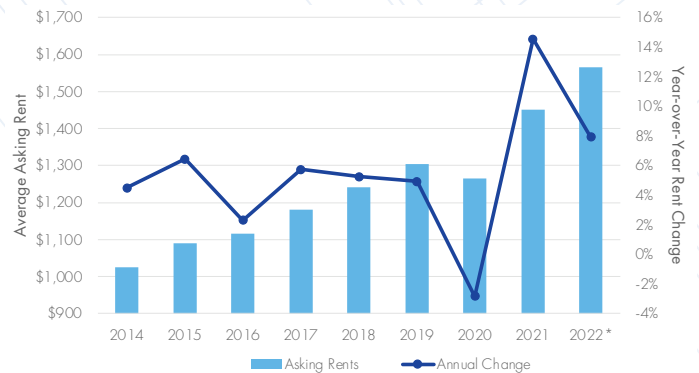
Austin has established itself as one of the top multifamily markets in the country in recent years, a trend that is expected to continue. Both local and out-of-state investors are attracted to the region's healthy economy, growing population, and strong prospects for outsized rent gains. The pace of multifamily transactions will likely pick up as the cost of capital stabilizes. With development activity on the rise, newly constructed projects will continue to play a key role in the mix of transactions in the next quarter and into 2023. To this point in the cycle, cap rates have inched higher but still remained fairly low. If buyers and sellers close the expectations gap, deal volume should gain momentum.

## Employment Forecast



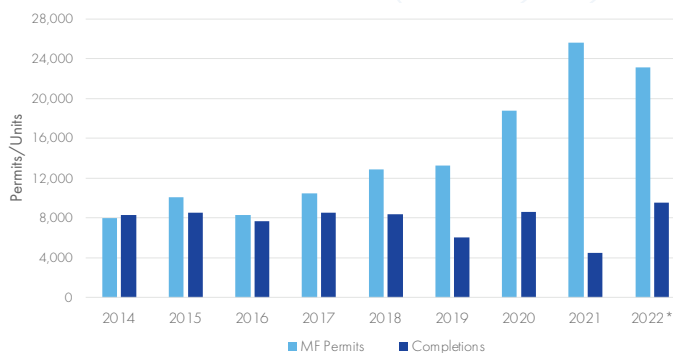
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

## Rent Forecast



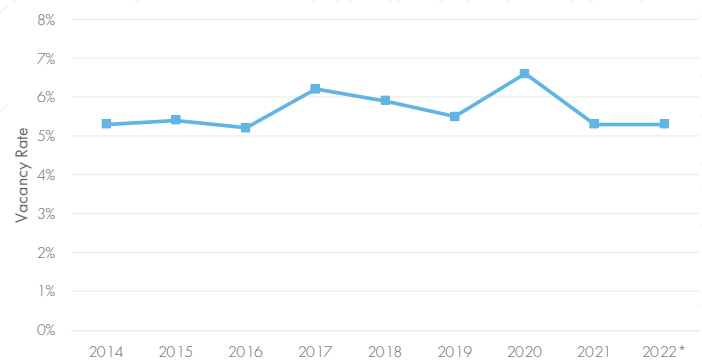
\* Year End Forecast  
Sources: Northmarq, Reis

## Construction & Permitting Forecast



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

## Vacancy Forecast



\* Year End Forecast  
Sources: Northmarq, Reis



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