

A strong close to 2022 to spark new development

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **42,526**

UNITS DELIVERED **10,249**

MARKET FUNDAMENTALS



VACANCY RATE **5.1%**

YEAR-OVER-YEAR CHANGE **-20bps**

ASKING RENTS **\$1,585**

YEAR-OVER-YEAR CHANGE **+9.3%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT* **\$221,700**

* Transactions where pricing is available

HIGHLIGHTS

- Operating conditions in Austin ended 2022 on a high note with vacancy holding steady, strong rent growth, and construction activity picking up. With the recent surge in the development pipeline, apartment completions are expected to reach a cyclical high in 2023, only a few years after below-trend deliveries.
- After ticking higher during the third quarter, the vacancy rate held steady in the final three months of 2022, finishing the year at 5.1 percent. The rate improved by 20 basis points during the last 12 months, even as more than 10,000 units were delivered.
- Apartment rents in Austin continued to push higher in 2022, rising 9.3 percent and ending the fourth quarter at \$1,585 per month. Rents have posted a cumulative gain of more than 25 percent in the past two years.
- Multifamily sales velocity slowed by 11 percent from the third quarter to the fourth quarter. In transactions where pricing was available, the median sales price in 2022 was \$221,700 per unit, up 7 percent from the median price in 2021. Cap rates have begun to trend higher, but properties traded within a wide range in the fourth quarter.

AUSTIN MULTIFAMILY MARKET OVERVIEW

The Austin multifamily market recorded a strong finish to 2022, as the vacancy rate held steady late in the year, and rent growth continued. The strong conditions are fueling development. Multifamily permitting was active in 2022, although the level of issuance retreated from the cyclical high recorded in 2021. Developers pulled permits for roughly 47,800 units during the past 24 months, which caused the construction pipeline to swell in recent quarters. Projects totaling more than 42,500 units are currently under construction throughout Austin. However, these units will be delivered over the next few years, particularly with construction timelines being extended due to supply shortages and a tight labor market.

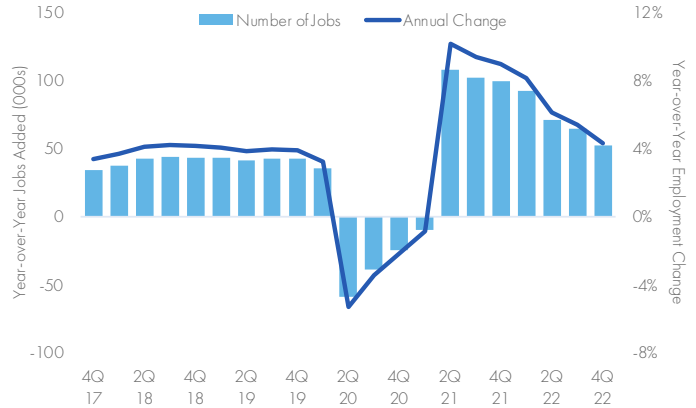
Multifamily investors in Austin are underwriting properties with increased caution. Sales activity continued to slow during the fourth quarter, and total transaction volume in 2022 was down 33 percent from the elevated total recorded in 2021. In sales where pricing was available, the median sales price in 2022 was \$221,700 per unit, up 7 percent from the median price in 2021. The rise in prices reflects the impact of higher incomes and rising rents in the market, even with interest rates on the rise and investors requiring higher yields. Cap rates have trended higher in recent periods and averaged around 4.3 percent during the fourth quarter.

EMPLOYMENT

- Local employment growth slowed in the fourth quarter, following rapid increases during the past two years. Employers in Austin added about 7,000 jobs in the last three months of 2022, about half the average gains recorded earlier in the year. The local labor market expanded by 51,900 jobs in 2022, an annual gain of 4.3 percent.
- Austin’s leisure and hospitality sector continued to rebound and has thrived as business and leisure travel has accelerated. During the past 12 months, employment in the sector has expanded by 17 percent with the addition of 22,000 jobs.
- Apple and Tesla are planning to invest heavily in Austin in 2023. Apple has recently filed for a \$240 million expansion at its north Austin campus while Tesla has submitted projects totaling more than \$700 million for improvements at Giga Texas. While the final details for neither project have been disclosed, these expansions will likely add thousands of high-paying jobs to the local workforce in the coming years.
- FORECAST:** While the overall local economic outlook is relatively strong, employment growth is forecast to continue to slow in the coming quarters. Local employers are projected to add nearly 18,000 jobs in 2023, an annual increase of 1.4 percent.

The local labor market expanded by 51,900 jobs in 2022.

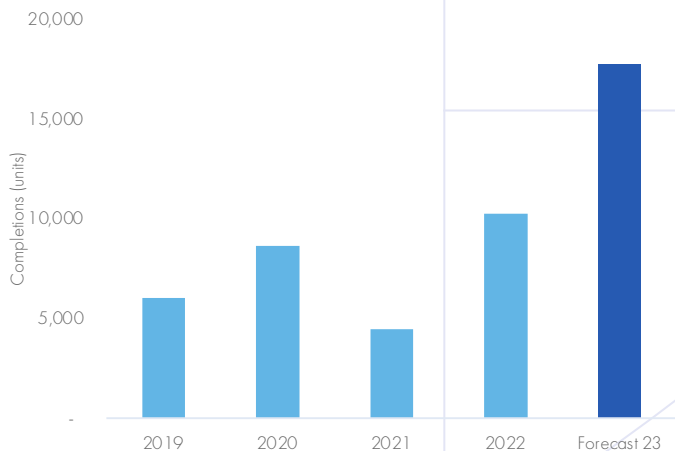
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

During the third quarter, projects totaling more than 3,400 units were delivered.

DEVELOPMENT TRENDS



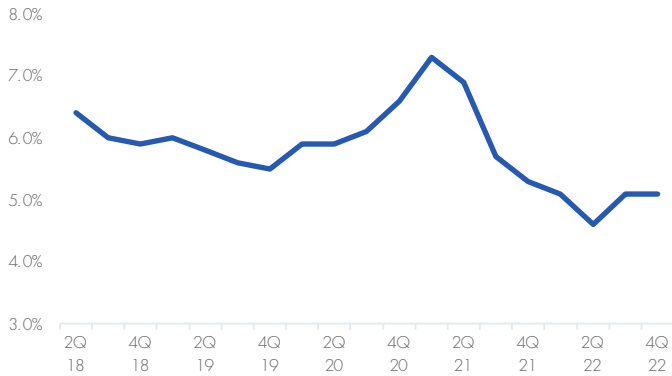
Sources: Northmarq, CoStar, Reis, Yardi

DEVELOPMENT & PERMITTING

- Multifamily developers were extremely active to close 2022, as projects totaling more than 4,000 units were delivered during the fourth quarter. For the full year, developers completed nearly 10,250 multifamily units.
- Development activity accelerated in recent months, with projects totaling more than 42,500 units currently under construction throughout Austin. This total represents projects that should be delivered over the course of the next 24 months. Inventory growth reached a lull from 2019 through 2021 but is expected to sustain momentum in the coming years.
- Multifamily permitting slowed throughout 2022; developers pulled permits for nearly 4,000 units during the fourth quarter, an 8 percent decline from the previous period. Approximately 22,100 permits were issued for the full year, down 13 percent from the cyclical high in 2021.
- FORECAST:** With the recent swell in the construction pipeline, the pace of multifamily completions will pick up in the coming year. Projects totaling more than 17,500 units are scheduled to come online in 2023.

Vacancy tightened by 20 basis points during 2022.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

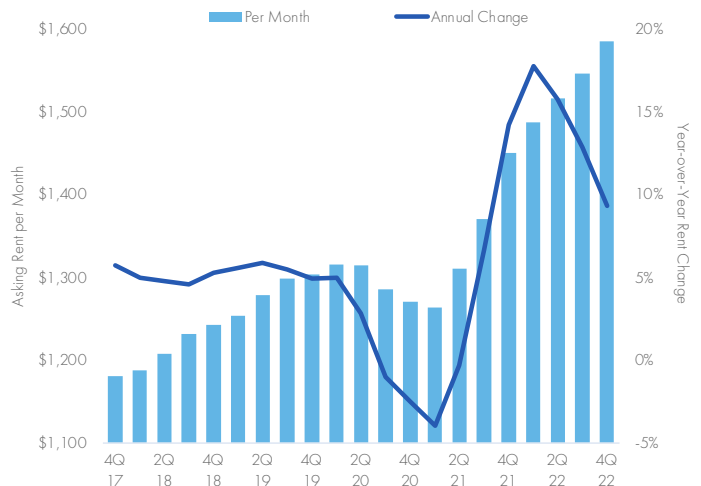
- The vacancy rate held fairly steady in recent months, after ticking higher in the previous period. Local vacancy finished the fourth quarter at 5.1 percent, unchanged from the third quarter.
- Despite elevated levels of new construction, vacancy in Austin tightened by 20 basis points in 2022. The current rate remains 80 basis points below the long-term average in the region. Area vacancy has improved in four of the past five years.
- Local vacancy declined across the quality spectrum in recent quarters with the largest improvements occurring in upper-tier units. The vacancy rate in Class A properties fell 60 basis points in 2022 to 5.4 percent.
- **FORECAST:** Vacancy is projected to trend higher in 2023 as the pace of supply growth picks up. The vacancy rate is expected to rise 40 basis points to 5.5 percent.

RENTS

- Asking rents in Austin continued to climb at a healthy pace during the fourth quarter, marking a seventh consecutive period of growth. Apartment rents rose 2.5 percent in the last three months of 2022 to \$1,585 per month; average rents jumped 9.3 percent in 2022.
- While most parts of the market recorded continued rent gains in 2022, the Central submarket posted the largest gains. Asking rents in the submarket spiked 14.3 percent in the last year to \$2,068 per month.
- Asking rents increased in all asset classes during the past year, with the most significant growth occurred in mid-tier and lower-tier properties. Combined asking rents in Class B and Class C units rose 10.2 percent in 2022 to \$1,257 per month.
- **FORECAST:** The pace of rent growth is expected to slow in the coming quarters, following two years of rapid gains. Apartment rents in Austin are forecast to rise 2.5 percent in 2023 to around \$1,625 per month.

Apartment rents rose 2.5 percent in the last three months of 2022.

RENT TRENDS



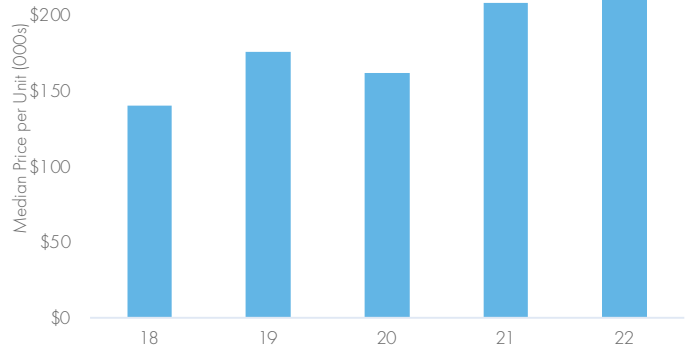
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily sales activity continued to slow, as transaction volume during the fourth quarter fell 11 percent from the previous period. Additionally, the number of deals in 2022 declined 33 percent from the 2021 total.
- In transactions where pricing was available, the median sales price in 2022 was \$221,700 per unit, up 7 percent from 2021 levels. Many of the properties that have sold in the last three months were located in suburban areas such as North Austin or in submarkets in Williamson County, including Round Rock and Hutto.
- Cap rates continued to inch higher in recent months and averaged around 4.3 percent during the fourth quarter. There was a fairly wide range as the market adjusted to rising capital costs; most of the properties that sold in the final few months of 2022 recorded cap rates between 3.75 percent and 4.75 percent.

Cap rates averaged around 4.3 percent in the fourth quarter.

INVESTMENT TRENDS



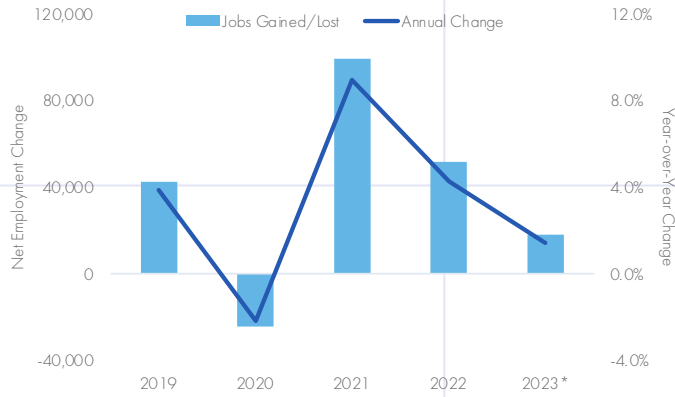
Sources: Northmarq, CoStar

LOOKING AHEAD

Property fundamentals in Austin are projected to soften a bit in 2023 in response to both slowing demand and accelerating supply growth. Completions were below trend from 2019 to 2021, but deliveries in the next 12 months are on track to outpace the previous two years combined. The result will be upward pressure on local vacancy and increased competition for renters. After reaching a nine-year low during 2022, the vacancy rate is forecast to tick higher in the coming quarters, likely finishing 2023 in the mid-5 percent range. Despite the pending upticks, the rate will remain below the trailing five-year average, and the high population growth in Austin should eventually stabilize the market.

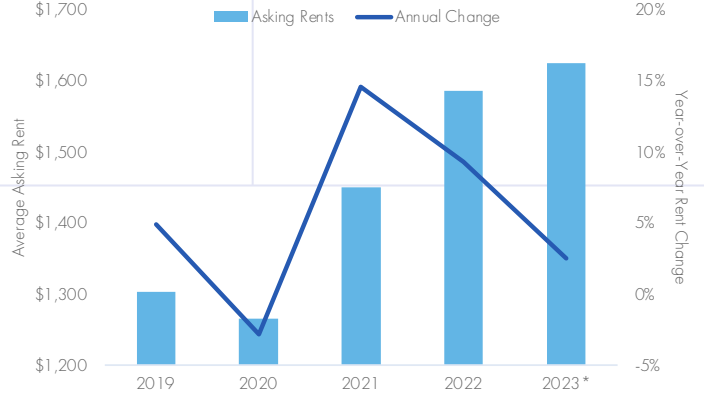
The local multifamily investment market typically records its slowest period of activity during the first quarter, a trend that is expected to continue in 2023 and may extend into subsequent periods. As investors in Austin continue to adjust to the fluctuations in the capital market space, sales activity will be somewhat limited. Total transaction volume in the coming periods should lag during 2022, but the surge in new inventory entering the market will present some acquisition opportunities in the Class A segment of the market. With an increase in the number of upper-tier assets in the transaction mix, there will likely be some elevated per-unit pricing. Cap rates in Austin are projected to reach the mid-4 percent to low-5 percent range in the first half of 2023.

EMPLOYMENT FORECAST



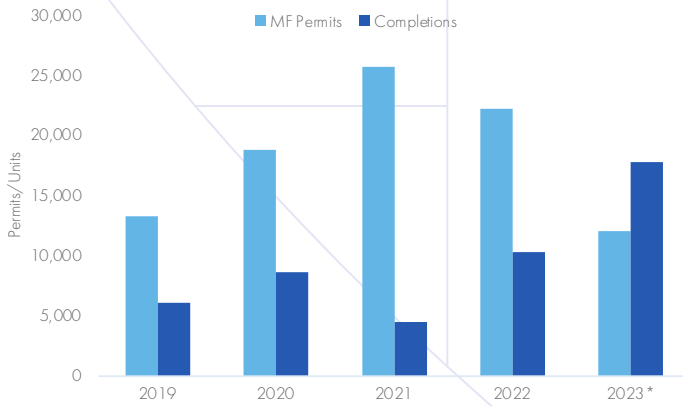
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



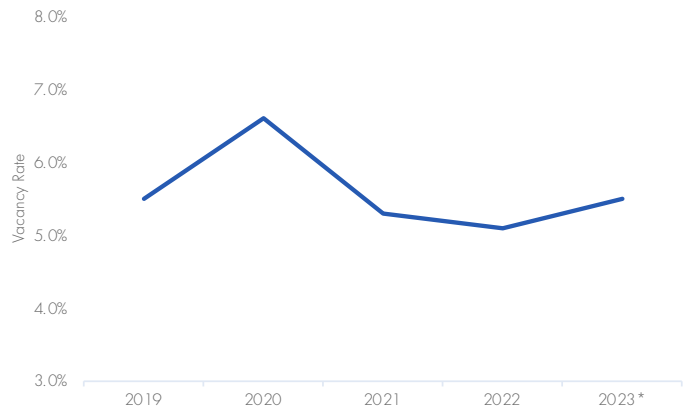
* Year End Forecast
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, REIS





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