

INVESTMENT FORECAST

Multifamily
Austin

IPA
INSTITUTIONAL
PROPERTY
ADVISORS


2022


Tesla's Commitment to East Austin is a Microcosm of the Market's Evolution

East Austin epitomizes the larger story. Austin is one of only a handful of markets in the U.S. that recovered all of the jobs lost during the pandemic before the end of 2021 and has now entered a new growth phase. The leisure and hospitality sector remains impaired in the aftermath of the health crisis, but the trend of technology firms migrating in has accelerated, stimulating higher-wage job creation and bolstering demand for Class A and B rentals. The arrival of Tesla, a company that was publicly disgruntled by local policies in California, illustrates this movement and the allure of Austin. Tesla first established a Gigafactory in East Austin and later announced plans to relocate its headquarters to the market. The Chamber of Commerce estimates the firm was responsible for at least 5,000 jobs created in 2021, with plans to grow that count to 15,000 positions within the next few years. East Austin serves as an example of the broader market landscape; while the rental demand drivers are evident, an aggressive construction pace could pose some near-term hurdles. Austin's apartment inventory will grow by the second-fastest pace in the nation in 2022, with nearly 5,000 units headed for the East submarket.

Long-term potential compels institutions and international investors.

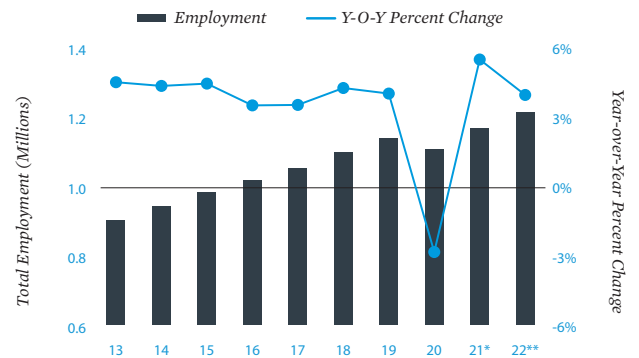
Cross-border transactions in Austin rose last year, with sales volume to international buyers approaching \$1 billion, just short of primary markets like Los Angeles, Boston and Chicago. The stronger economic recovery in Austin relative to many gateway metros may prompt greater international interest this year, as well as a cascade of institutional activity. Many investment groups are eager to deploy capital and get a foot in the door of the rapidly growing metro. The widening buyer pool and high expectations for future multi-year growth are reflecting in sale prices and cap rates. Upper-tier assets trade with first-year returns as low as the mid-2 percent range, nearly matching coastal markets in California. Class A properties in technology-firm-saturated North Austin as well as the rapidly growing suburbs just north of here like Cedar Park, Round Rock, Georgetown and Pflugerville have traded with minimum returns in the 3 percent range. Entry costs in these areas frequently exceed \$200,000 per unit as well. Institutions focusing on the urban core prefer neighborhoods north of the University of Texas, especially those in Midtown such as Highland and Brentwood. Sale prices exceeding \$30 million for 200-plus-unit properties built in the past five years are recorded here.

24.3%  2021 share of local population between 20 and 34 years old

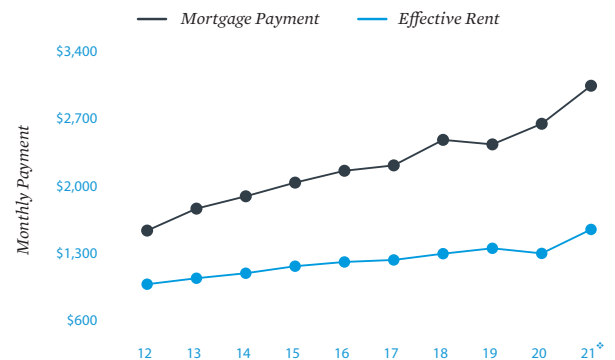
41.3%  of local population hold bachelor's degree or higher*

\$451,900  2021 median home price

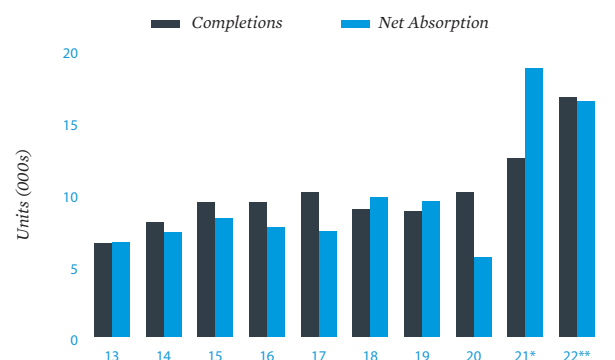
Employment Trends



Housing Affordability Gap



Supply and Demand



* Estimate ** Forecast * Through 3Q
**2021: 25+ years old

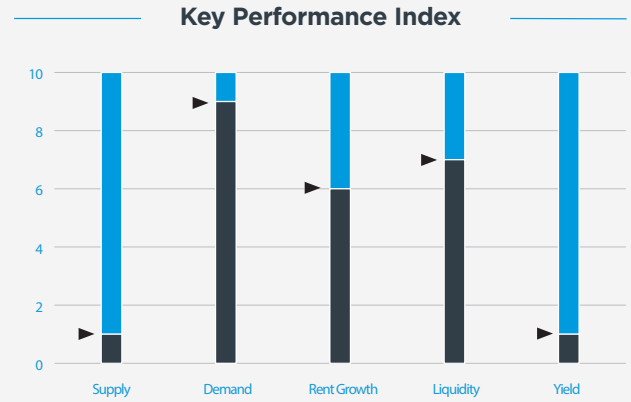
Sources: Marcus & Millichap Research Services; BLS; Freddie Mac; National Association of Realtors; RealPage, Inc.

2022 Investment Outlook

The contrasting high demand score and low supply ranking depict the state of the Austin multifamily landscape. The creation of new high-paying jobs is fueling absorption of upper-tier rentals, yet at the same time construction activity is at record volumes.

More investors are setting their sights on Austin amid an accelerated population growth trajectory and a strengthening local economy. The large buyer pool results in a solid liquidity score of 7, but an active bidding market is compressing cap rates and pushing down on the yield ranking.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.



2022 Market Forecast

Employment

45,500 jobs



Metro **3.9%**

U.S. **2.5%**

Construction

as % of inventory^v



Metro **6.1%**

U.S. **2.2%**

Class A Vacancy

Down 10 bps



Metro **4.0%**

U.S. **3.6%**

Class A Rent

\$2,189
per month



Metro **10.5%**

U.S. **7.5%**

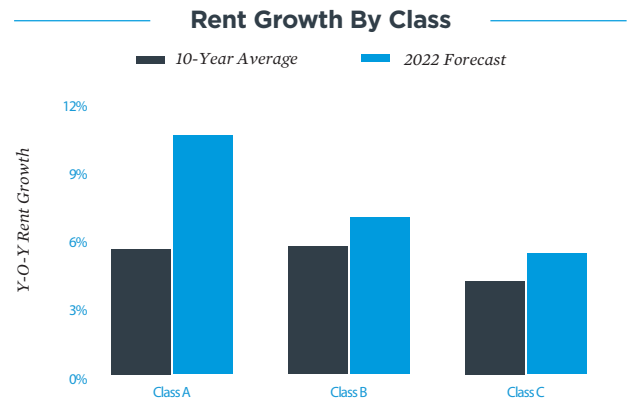
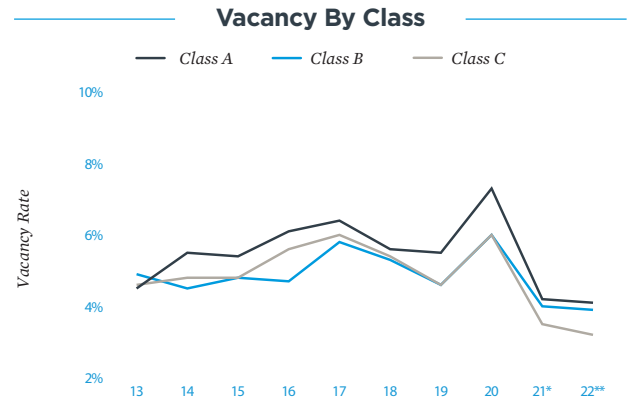
Investment

3-yr. avg. activity
\$20+ million



Deals: **31**

Volume: **\$1.7 Billion**



John Sebree

Senior Vice President

Director IPA Multifamily

(312) 327-5400 | jsebree@ipausa.com

* Estimate ** Forecast
 † Arrow reflects completions trend compared with 2021
 Sources: Marcus & Millichap Research Services;
 CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics