MARKET REPORT

Multifamily

Austin Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

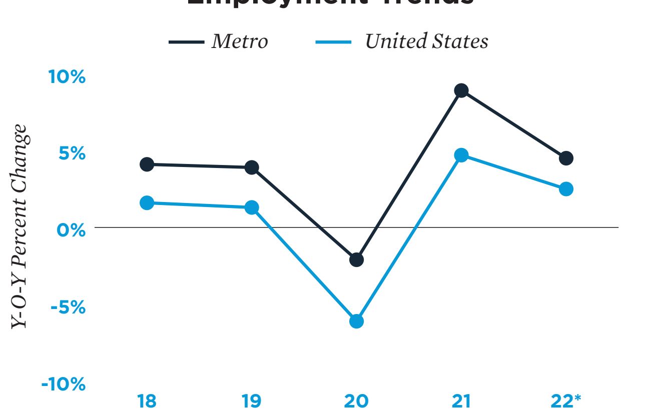
2Q/22

The Growing Young Adult Populace Benefits Rentals Amid Ownership Barriers

Higher-quality segments post remarkable rent growth. The burgeoning tech scene, favorable climate and attractive lifestyle are drawing a horde of new residents. By the end of 2022, the two-year in-migration total is projected to surpass 60,000 new Austinites, assisting in a 23,500 person boost to the age 20-34 cohort. Despite the influx of young people, who typically have less financial stature, the median household income rose 3 percent last year amid growth in higher-wage industries; however, this paled in comparison to the 29 percent jump in the median home price last year, and hurdles will heighten as mortgage rates climb. In light of this, the sizable and growing young adult pool is increasingly opting to rent, favoring higher-quality units with amenities. Class A and B vacancy each fell 290-plus basis points year-over-year in March, producing rent hikes above 20 percent.

Gigantic pipeline overshadowed by monumental demand. Austin is set to lead the nation with a 6.1 percent inventory expansion in 2022. The new supply is warranted by tight vacancy, but the massive volume could present near-term headwinds in a few areas. Six submarkets will add at least 1,000 units in 2022, with stock expansions exceeding 5 percent in East Austin, Round Rock-Georgetown, Downtown-University, Cedar Park and Far South Austin. East Austin has the largest pipeline, and also the highest vacancy of these areas, but Tesla's arrival is serving as an economic catalyst here, creating jobs and demand for housing.

Employment Trends



* *Forecast*

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

55,000 JOBS *will be created*

EMPLOYMENT:

Austin's 8.9 percent job expansion last year was the second-fastest among major United States markets. While the metro will slip down a few spots in 2022, with a full recovery already achieved, the 4.5 percent gain will exceed the past decade annual average.

16,700 UNITS *will be completed*

CONSTRUCTION:

Almost 30,000 units are in the pipeline, with expected completion dates before the end of 2023. This year's delivery volume will be the largest on record, and the pace of supply arrivals in Austin is not set to moderate in the forseeable future.

30 BASIS POINT *decrease in vacancy*

VACANCY:

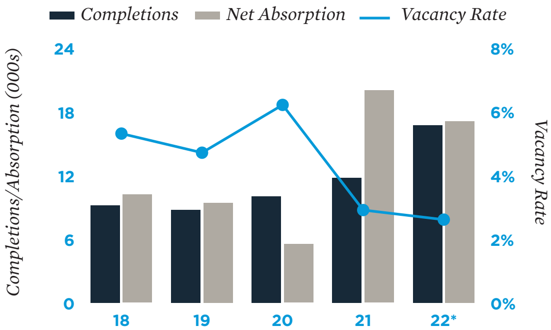
Net absorption of more than 17,000 rentals in 2022 will bring the two-year total to nearly 38,000 units. Demand is outpacing Austin's historic construction pipeline amid robust in-migration, pressing vacancy down to 2.6 percent this year.

11.3% INCREASE *in effective rent*

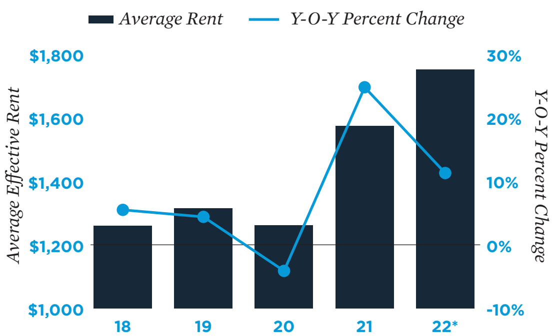
RENT:

For the second straight year, the average effective rent will grow by a double-digit percentage, reaching $1,752 per month. Last year's 24.8 percent gain was the sixth largest in the nation, and the 2022 surge will once again place Austin in the top 10.

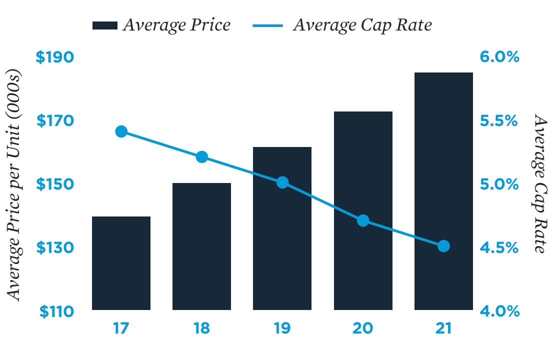
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

IPA Multifamily
John Sebree
Senior Vice President
Tel: (312) 327-5400 | jsebree@ipausa.com

For information on national multifamily trends, contact:
John Chang
Senior Vice President, National Director | Research Services
Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

12,154 units completed

- Inventory growth of 4.6 percent during the past four quarters ended in March was a notch above the previous period's 4.1 percent rise.
- As developers focus on fast-growing areas like East Austin, there are a few submarkets adding less units than they recently have. During 2021, Northwest Austin had its slowest stock expansion in nine years.

VACANCY

330 basis point decrease in vacancy Y-O-Y

- At the end of 2020, vacancy in all three rental tiers was 5.8 percent or higher. Entering April 2022, each segment had a rate of 3.5 percent or lower.
- Class B availability was sliced in half in several suburban submarkets, including Near North Austin, North Central Austin and Pflugerville-Wells Branch. Each locale now has a sub-4 percent Class B rate.

RENT

24.8% increase in the average effective rent Y-O-Y

- All 16 submarkets noted average effective rent climbs exceeding 12 percent during the past year. Over half of those areas registered a gain larger than 25 percent, and the Arboretum led the pack with a 30 percent jump.
- Austin's average effective rent reached $1,608 per month in the first quarter, which is the most expensive across major metros in Texas.

Investment Highlights

- Austin's impressive employment growth since the onset of the health crisis, expanding tech ecosystem and outstanding apartment performance have activated a very competitive bidding market. Many institutions and private buyers that historically concentrate on coastal gateway metros have shifted their focus to the Sun Belt, with an especially high regard for Austin. This has boosted liquidity, but has also influenced sales metrics rather dramatically. The average cap rate now sits among the lowest in the country, outside of coastal markets in California.
- Deal flow improved by about 20 percent in 2021 relative to the previous year, driven by an escalation of transactions priced above $15 million. As more larger-scale, mid-tier and luxury properties changed hands, paired with the universal upward pressure on prices that ensues from a competitive bidding environment, the average sale price in Austin rose 7 percent last year to $184,500 per unit.
- Gauging the market over the past six months, buyers are accepting minimum returns in the low-3 percent range and maximum cap rates in the 5 percent area. Suburbs in East, Northeast and Northwest Austin, along with the Midtown locale, are the hottest areas for trading.