

# MARKET REPORT

Multifamily  
Austin Metro Area

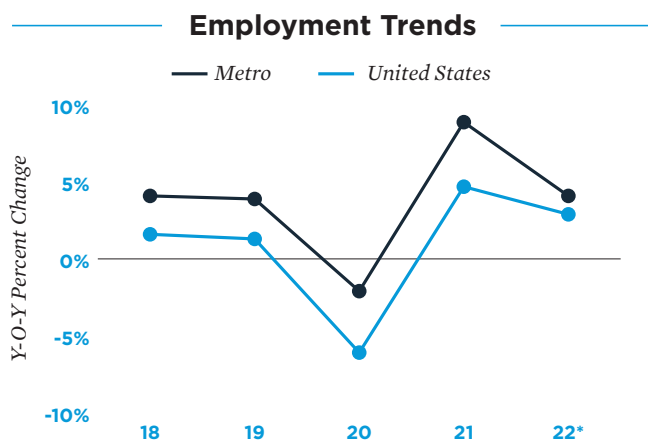
IPA  
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ADVISORS

3Q/22

## Vacancy Ticks up to a More Viable Long-Term Level as Residents Adapt to Economic Trends

**Rent gains and inflation impact living choices.** Prior to the pandemic, Austin had an average effective rent of about \$1,300 per month. That measure approached \$1,700 per month in the second quarter of 2022, with rapid growth driven by in-migration, rising homeownership costs and very low apartment availability. The new cost-of-living reality amid widespread inflation may be coaxing some Austinites to decline lease renewals, find roommates or relocate to more affordable areas. Hiring in high-wage industries downtown boosted Class A and B average rents here by 22 and 34 percent, respectively, since 2019. Local demand is being pushed toward low- and mid-tier rentals in less costly adjacent areas like Riverside or South Austin, where CBD amenities and jobs are still accessible. Other areas with below market average Class A/B rents like Pflugerville-Wells Branch and Far West Austin may also benefit from this trend.

**Construction finally catches up.** From the beginning of 2021 through March of this year, nearly 24,000 rentals were absorbed on a net basis, dropping vacancy to an all-time low of 2.7 percent. The historic construction pipeline reflects developers' attempt to meet strong demand, as local inventory is set to grow by the fastest pace of any primary or secondary U.S. market this year. Supply additions outpaced the number of newly occupied apartments in the second quarter for the first time since 2020. Near-term economic headwinds, particularly in the tech sector, contributed to this by slowing household creation amid inflation and less aggressive hiring.



\* Forecast

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

## Multifamily 2022 Outlook



**50,200  
JOBS**

*will be created*

### EMPLOYMENT:

Austin's labor force continues to grow at an exceptional pace, with the employment tally surpassing the pre-pandemic count by over 91,000 jobs as of June 2022. The market has added at least 1,500 new positions in each of the past 16 months.



**14,200  
UNITS**

*will be completed*

### CONSTRUCTION:

Inventory growth of 5.2 percent will be the fastest of any U.S. market with a local population of at least 600,000 residents. Only one other such market will have a stock expansion of at least 4.0 percent. East Austin and Round Rock-Georgetown lead the pipeline.



**70  
BASIS POINT**

*increase in vacancy*

### VACANCY:

Vacancy ends 2022 at 3.6 percent, higher than last year but well-below the market's trailing 10-year average of 5.0 percent. The vacancy lift this year is only about half of the magnitude projected for the nation as a whole.



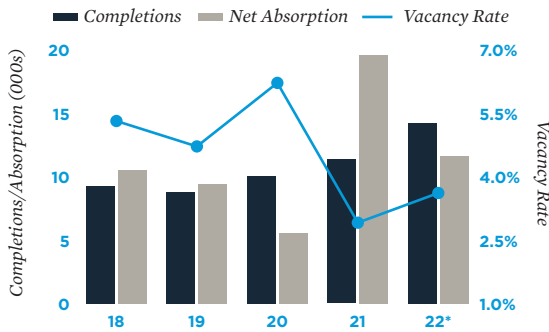
**11.6%  
INCREASE**

*in effective rent*

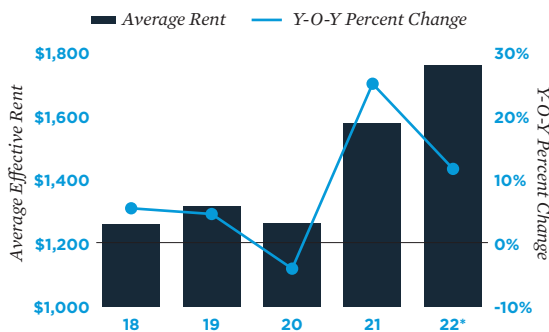
### RENT:

The rise in vacancy could be beneficial for rent growth, as units can be realigned with market conditions as they become available. Additionally, the influx of new top-tier apartments helps drive up the marketwide average effective rent to \$1,760 per month.

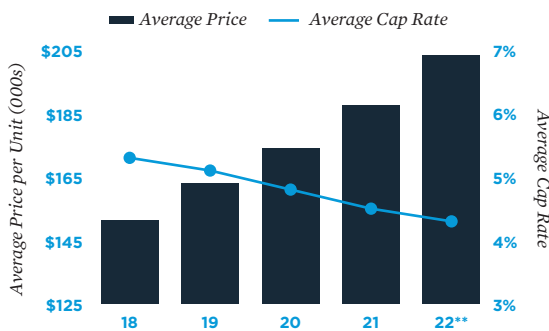
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

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

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Price: \$250

## 2Q 2022 - 12-Month Period

### CONSTRUCTION

**13,792 units completed**

- Austin's apartment inventory grew by an eye-catching 5.1 percent during the past year ended in June. Local stock expansion of 22.7 percent in East Austin followed Tesla's arrival, and the active pipeline here remains large.
- North Central Austin, which holds the most inventory, added fewer rentals during the past 12 months than six smaller submarkets in the metro.

### VACANCY

**130 basis point decrease in vacancy Y-O-Y**

- The vacancy landscape across Austin is fairly uniform. In the second quarter of 2022, all 16 submarkets had a vacancy rate between 2.7 percent and 4.3 percent, with Southeast Austin claiming the lowest mark of the bunch.
- Comparing the recent vacancy measure to the tally two years ago, both Class A and Class B rates are down more than 150 basis points.

### RENT

**21.3% increase in the average effective rent Y-O-Y**

- Annual rent growth between 17.8 percent and 27.8 percent was logged in 15 of 16 submarkets. Gains were the fastest in Riverside and the Arboretum.
- During 2021, Class A and B rent climbs exceeded 25 percent, while the Class C rise was below 7 percent. Now, the top tiers' growth rates have come down a notch, but remained in the double digits as of midyear.

## Investment Highlights

- Apartment assets in Austin continue to garner attention from a growing share of institutions across the nation. However, the rise in the average sale price since 2019 has been comparatively moderate. During the yearlong period ended in June 2022, the average price per unit reached \$203,300, about 25 percent higher than the year-end 2019 measure. This is an exceptional trajectory, yet at least 30 major U.S. markets have had larger jumps, potentially indicating that Austin has the stability to sustain growth as some other metros experience a moderation.
- First-year returns can dip into the upper-2 percent band for luxury assets in tech-heavy locales like Northwest Austin and the surrounding suburbs. Higher returns are obtainable in outlying areas like San Marcos, Buda and Kyle, along the rapidly-expanding Interstate 35 corridor. Amplified living costs in the Austin urban core and affluent north suburbs may coax more residents to move to these areas in the coming years.
- During the first two quarters of 2022, East Austin was the most targeted locale, as a cascade of new supply is coming online, following recent economic developments in the area. More trades were completed here during the opening half of 2022 than in the prior 18 months combined.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.