

An aerial photograph of Austin, Texas, showing a dense urban skyline with numerous high-rise buildings. In the foreground, a river flows alongside a bridge, with green trees and a baseball field visible. The image is used as a background for a market update report.

# 3Q20 Austin Multifamily Market Update

NEWMARK





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# Key Takeaways



## Sales Volume

While deal activity decelerated significantly due to uncertainty at the onset of the COVID-19 outbreak, multifamily investment sales volume has been trending upward nationally, as quarter-over-quarter transaction volume rose 55.9% in 3Q20, the strongest sequential quarter-over-quarter gain since 2011. In Austin, the number of property sales more than doubled in the third quarter compared to the second and transaction volume increased by 53.5%.



## Rent Collections

Rent collections for multifamily continue to outperform other major property types, with 96.4% of rent payments collected in Austin in 3Q20, outperforming the national average of 94.4%. Collections during the pandemic have varied geographically, with densely populated markets suffering more than others due to the nature of the coronavirus.



## Rent Growth

Annualized rent growth in the Sunbelt markets has continued to greatly outperform the national average, which fell to 1.0% over the last 12 months. While effective rents showed a 1.5% decrease quarter-over-quarter for 3Q20, Austin still leads Texas and a majority of the Sunbelt markets in rental rates. Suburban and north submarkets in Austin showed the most growth from last quarter, with several areas trending positive.



## Total Returns

Austin's total returns came in at 3.7% for 3Q20, outpacing the national average of 2.3%. As a whole, national multifamily total returns fell to 0.8% year-to-date, marking the lowest annual rate of return since 2009 during the Global Financial Crisis (GFC). Despite this drop, historical annualized returns for multifamily assets have shown the ability to rebound sharply following an economic downturn.



## Supply and Demand

Sunbelt markets continue to drive the highest demand and garner the most attention from multifamily investors and developers. Austin added 2,290 new units in 3Q20 and recorded a healthy absorption rate with 2,277 of those units occupied, keeping demand in line with supply. Nationally, Austin is performing amongst the top 10 best markets for annualized demand.



## Employment

Despite 2020 being fraught with market disruption, a record-breaking number of new jobs have been announced in Austin this year due to corporate relocations and expansions. As of November 2020, 35 companies are relocating to Austin and bringing 9,790 jobs while another 5,000 jobs are being created due to local company expansions. With this level of growth, Austin has been able to maintain a year-over-year job loss of just 1.9%, making it the best performing city among the 50 largest metros in the nation.

# Market Snapshot

Austin is one of the hottest multifamily markets in the country due to its exceptional economic and population growth story.

Fastest-Growing Major Metro in the Country  
(U.S. Census Bureau, 2020)

**NINTH CONSECUTIVE YEAR**

Hottest U.S. Job Market  
(Wall Street Journal, 2020)

**SECOND CONSECUTIVE YEAR**

Tech Town  
(CompTIA, 2020)

**SECOND CONSECUTIVE YEAR**

Best State Capital to Live  
(Wallethub, 2020)

**SECOND CONSECUTIVE YEAR**

Best City to Live in the U.S.  
(U.S. News & World Report, 2019)

**THIRD CONSECUTIVE YEAR**

Best College Town in America  
(Wallethub, 2019)

**THIRD CONSECUTIVE YEAR**

Tech Salary Growth  
(Hired, 2020)

City for Real Estate Investment  
(PricewaterhouseCoopers and Urban Land Institute, 2019)

City for Growth Over the Last Decade  
(Brookings Institution, 2019)



## 3Q20 AUSTIN MSA MULTIFAMILY STATS

92.1%

average occupancy

\$1,265

average effective rent

\$1.47

average effective rent psf

\$188,633

average sales price per unit

2,290

new units added

Source: Austin Investor Interests

# Sales Volume

Multifamily remains the largest recipient of capital compared to other property types year-to-date and appears to be experiencing a “V-shaped” recovery as it relates to sales volume.

While monthly investment volume improved across all property types in the third quarter, the clearest recovery has been in multifamily. Continued agency lending, high rent collection and past demand for rental housing following economic disruptions have improved investor sentiment and led to higher deal volume.

Increased investor confidence in multifamily has fueled a 55.9% quarter-over-quarter

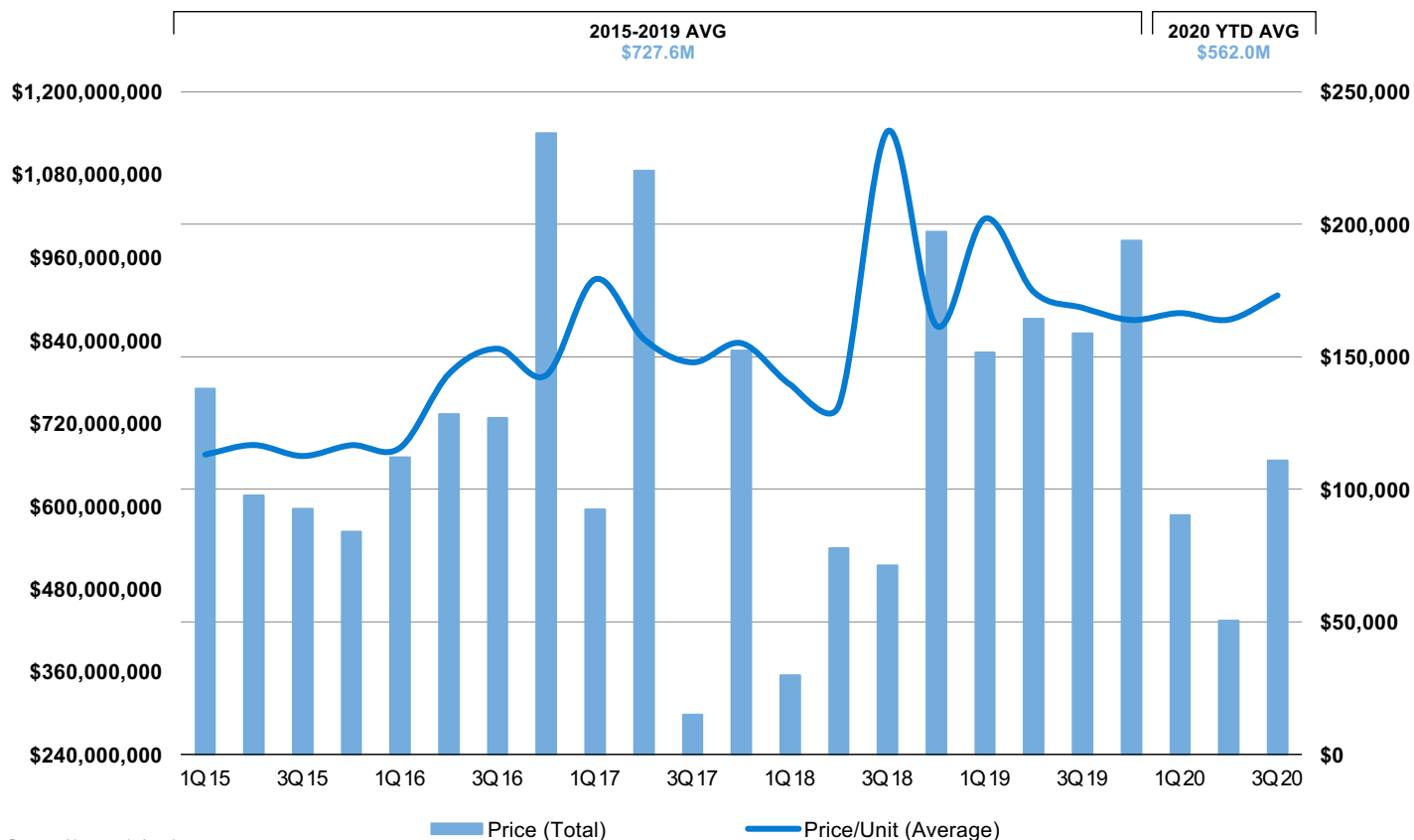
increase, the strongest sequential quarterly gain since 2011. Activity is expected to continue to accelerate through year-end and into 2021.

Austin saw a 53.5% quarter-over-quarter increase in transaction volume during the third quarter and remains on track to finish out 2020 with a strong fourth quarter, all things considered.

From April through August, multifamily investment sales volume topped that of all other asset classes, accounting for 34.3% of total volume.

NEWMARK RESEARCH

## AUSTIN SALES VOLUME







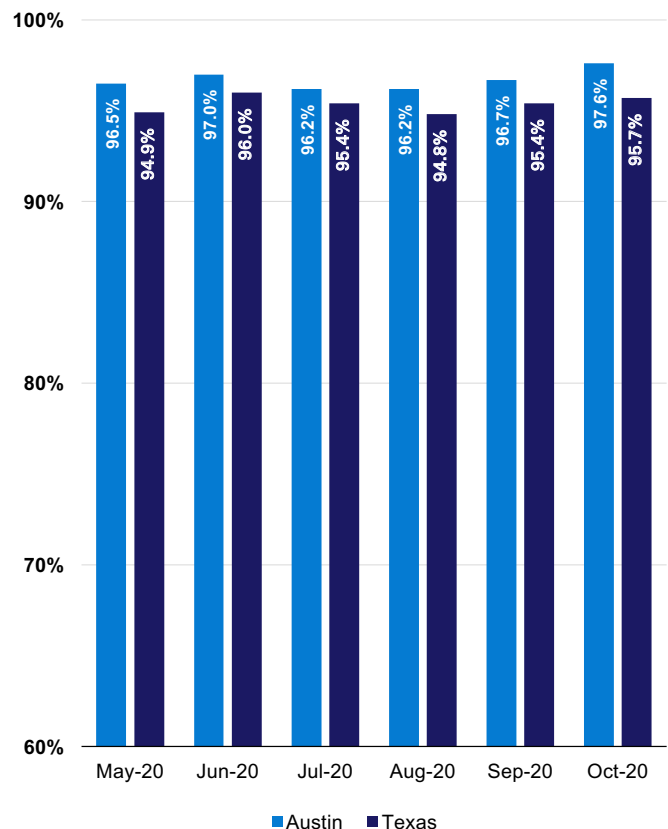
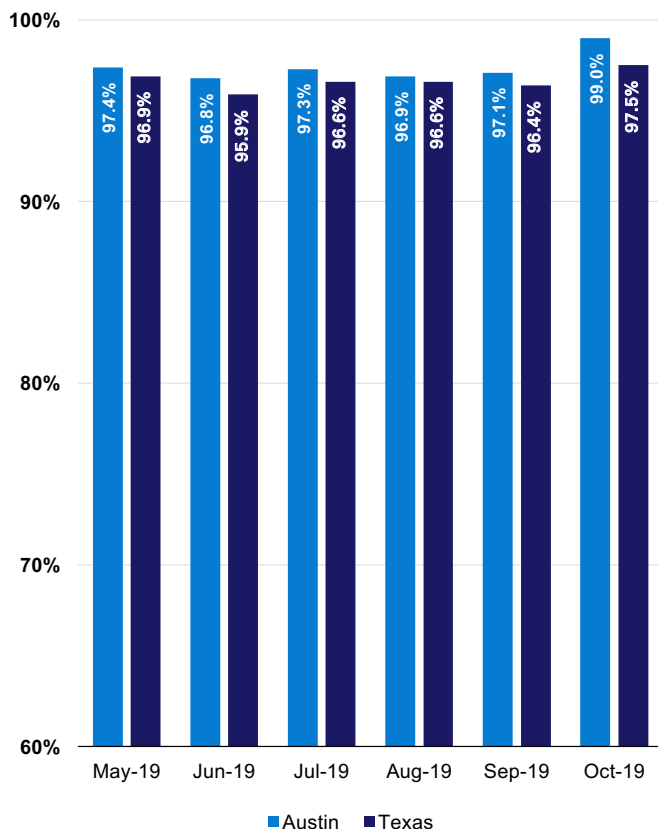
# Rent Collections

As a whole, multifamily rent collections have weathered the downturn well, with no single market collecting less than 90% in 3Q20.

Despite a lack of recent stimulus, rent collections continue to outperform expectations. According to the National Multifamily Housing Council (NMHC), professionally managed apartments averaged 94.9% full or partial rent payments in 3Q20, slightly behind the 95.2% average in 2Q20. The National Council of Real Estate Investment Fiduciaries (NCREIF) open-end fund index, primarily made up of core and core-plus vehicles, showed positive momentum with rent collections accelerating in each month during 3Q20.

Austin outperforms the nation and Texas with 96.4% of rent payments collected for 3Q20; this reflects only a slight drop of 0.8% from 3Q19 levels.

## RENT COLLECTIONS 2019 VS. 2020



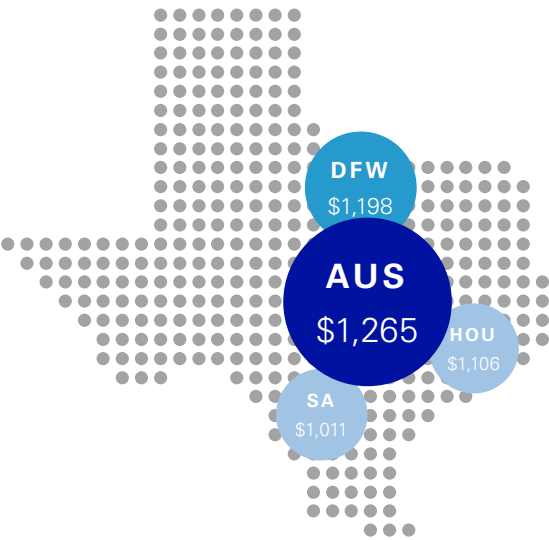
Source: Newmark Research, NMHC, NCREIF

# Rent Growth

Rent growth in the Sunbelt markets has continued to outperform the national average, which fell to 1.0% over the last 12 months.

As multifamily owners and operators continue to increase concessions to attract and retain renters, rent growth remains stifled across the country.

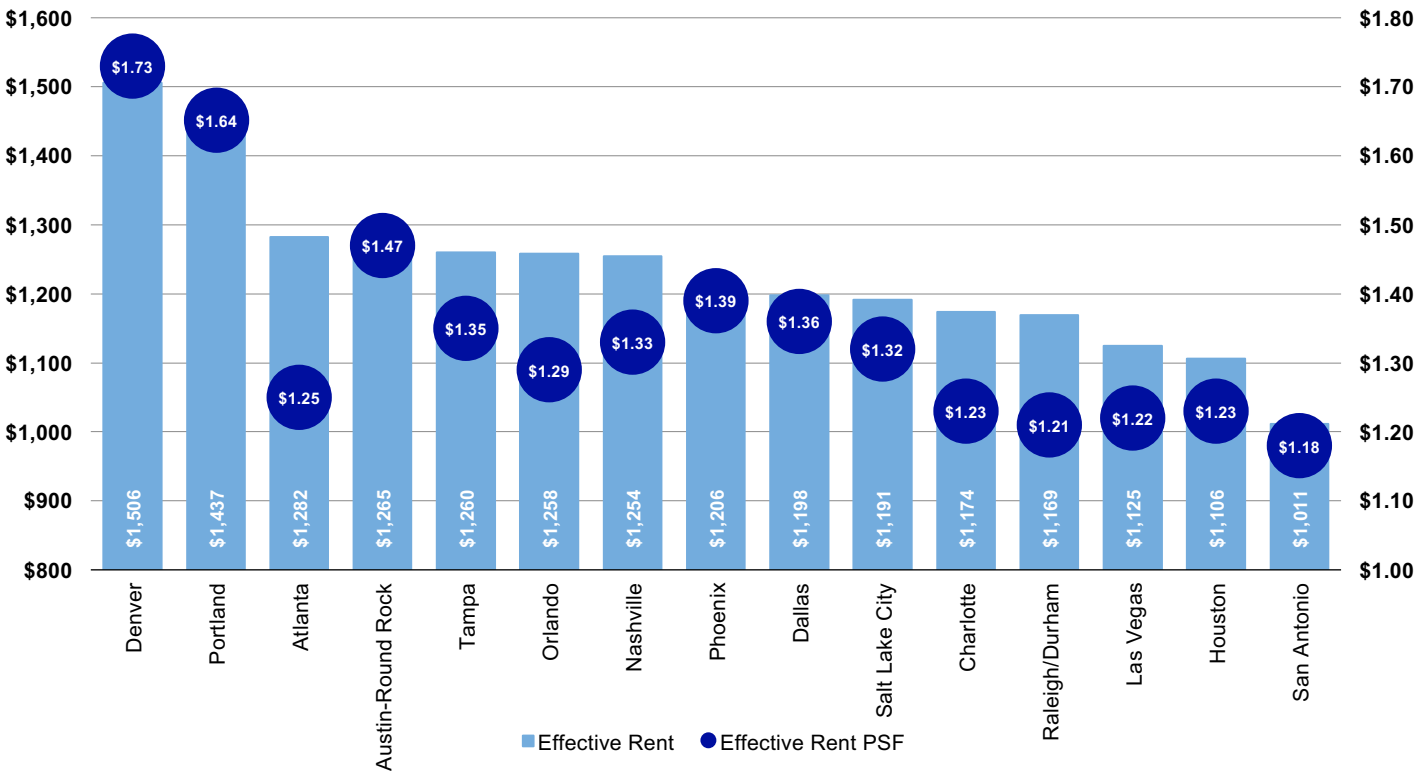
Non-major markets, particularly those in the Sunbelt, top the country in terms of annualized growth. However, Austin's decade-long growth story cements its status amongst its non-major market counterparts with the highest rents in Texas – a state that has one of the strongest multifamily markets in the country.



Land availability, a friendly business climate, good weather and high quality of life all contributed to the rapid expansion of the state’s rental market.

MULTI-HOUSING NEWS

EFFECTIVE RENT IN NON-MAJOR MARKETS





## Suburban Submarkets Trending Upwards

With the increased amount of people working remotely, renters have flocked to the suburbs, attracted to the lower rents and more spacious floorplans offered by suburban garden communities. Of the \$29.1 billion invested in multifamily properties from April to August 2020, 65.4% went to garden-style apartments. During the third quarter, Austin's northern and suburban submarkets were the only areas to experience positive quarter-over-quarter rental growth, indicating localized demand further out from the CBD.

For Austin in particular, the employment gains in the suburbs and northern markets have also fueled this trend. This year, Amazon announced expansions into four Austin suburbs (Pflugerville, Buda, Kyle, and Round Rock). That coupled with the stalwart of employment that is Dell's World Headquarters in Round Rock, the influx of high-tech companies moving into The Domain and Apple's \$1.3 billion expansion campus in north Austin has dramatically increased the desirability of luxury living outside of downtown.



Investors who typically place capital in safe haven-type markets are now open to suburban areas as a result of potential concerns generated by the pandemic — overcrowding and mass transit.

NEWMARK RESEARCH

### AUSTIN SUBMARKET RENT GROWTH 3Q20

Source: Austin Investor  
Interests

4.17%

Bastrop

3.55%

Hays

2.59%

San Marcos

1.97%

Northwest Central

1.95%

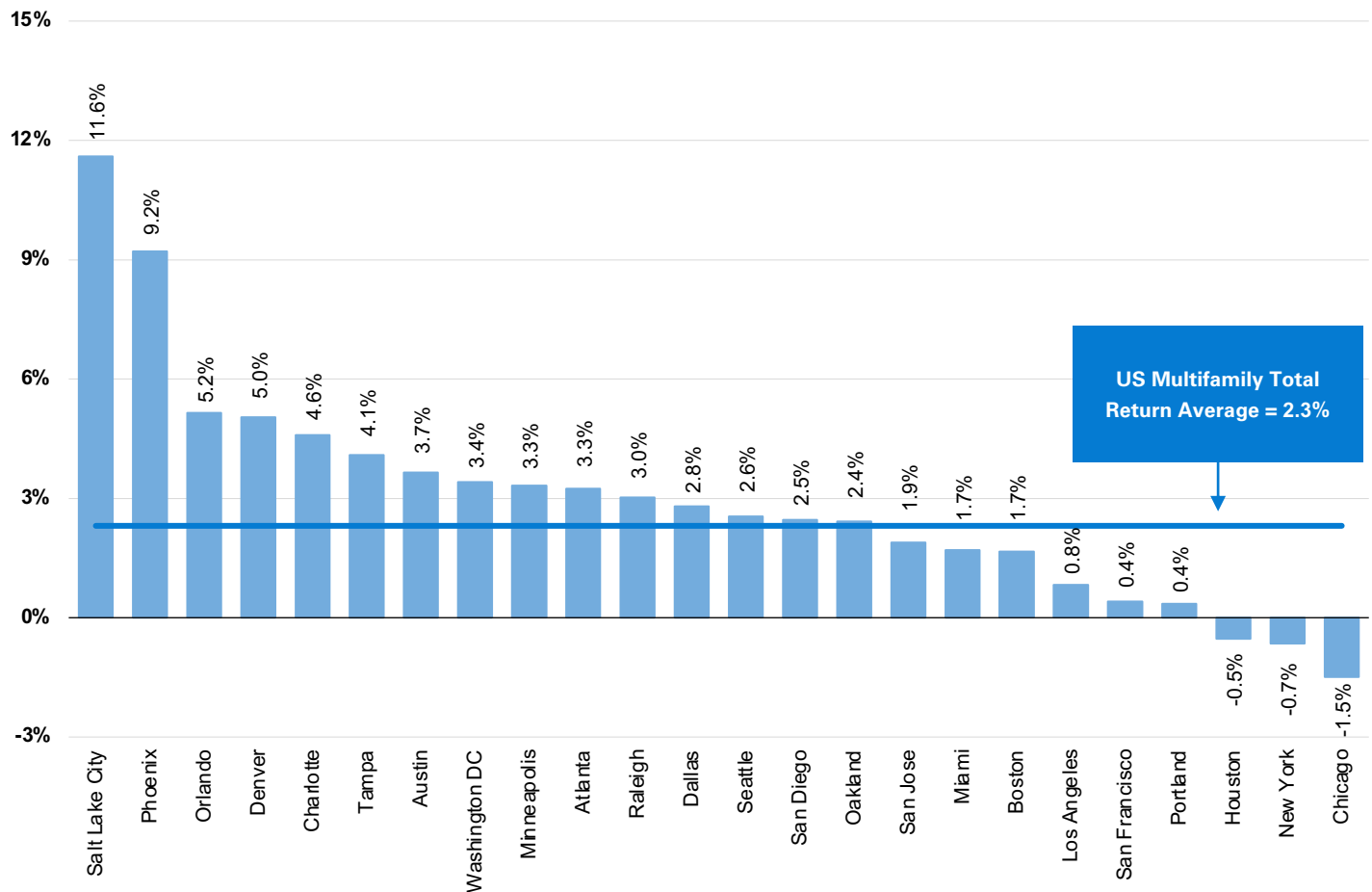
Northwest

1.31%

Round Rock

## MARKET ANALYSIS

### TOTAL RETURNS BY MARKET, ANNUALIZED



Source: Newmark Research, NCREIF

## Total Returns

Though returns are lower in the short term, historical annualized returns for multifamily show strong yields over time, especially after a recession.

Despite slowed appreciation, growing multifamily markets such as Salt Lake City and Phoenix have yielded the highest total returns over the last 12 months. Half of the top 10 markets by total returns are in the Sunbelt, including Austin at 3.7%, a region that has achieved strong levels of population and employment growth and has attracted record levels of institutional capital.



# Supply and Demand

Year-to-date, new supply nationally totaled 250,656 units, representing a 1.8% increase in total inventory growth.

With 103,557 new units expected to deliver in 4Q20, landlords in high-growth markets are in a position to benefit from accelerating migration trends.

Sunbelt markets continue to drive the highest demand and garner the most attention from multifamily investors and developers. Over the past 12 months, demand has been strongest in Dallas (16,917 units), Atlanta (10,369 units) and Houston (7,957 units), while Austin ranks sixth nationally in terms of demand with 5,580 units absorbed. In the third quarter, supply and absorption were nearly equal in Austin with 2,277 of 2,290 new units occupied, which is a marked improvement from both the first and second quarters of this year.

## Migration to Texas spurs multifamily developers trying to keep up with demand

From July 2018 to July 2019, the population of Texas grew by 367,215, the largest population growth in the country according to the U.S. Census Bureau. Additionally, Texas accounted for nearly one-fourth of the country's population growth from 2018 to 2019.

Experts point to economic and job growth — along with a comparatively low cost of living, a low cost of doing business and no state income tax — as drivers of Texas' population boom.

In response, Texas multifamily development has been in overdrive to keep up with demand. Austin topped the nation

From mid-2018 to mid-2019, the Lone Star State added more residents than any other state.

U.S. CENSUS BUREAU

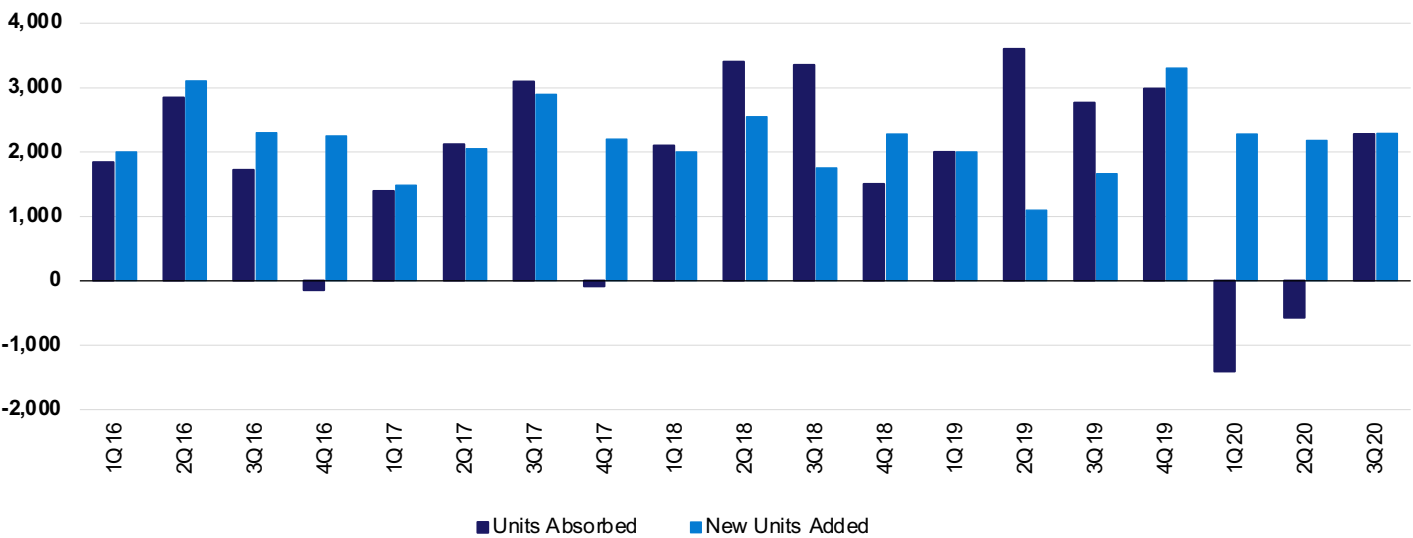


with the most multifamily units completed in the first six months of 2020, according to Yardi Matrix data. San Antonio was right behind Austin, while Houston and Dallas ranked seventh and eighth, respectively. "In response to the high demand, the Austin metro has been an active scene for new construction in the past five years, having completed over 50,000 new apartments since 2016," cited Yardi Matrix.

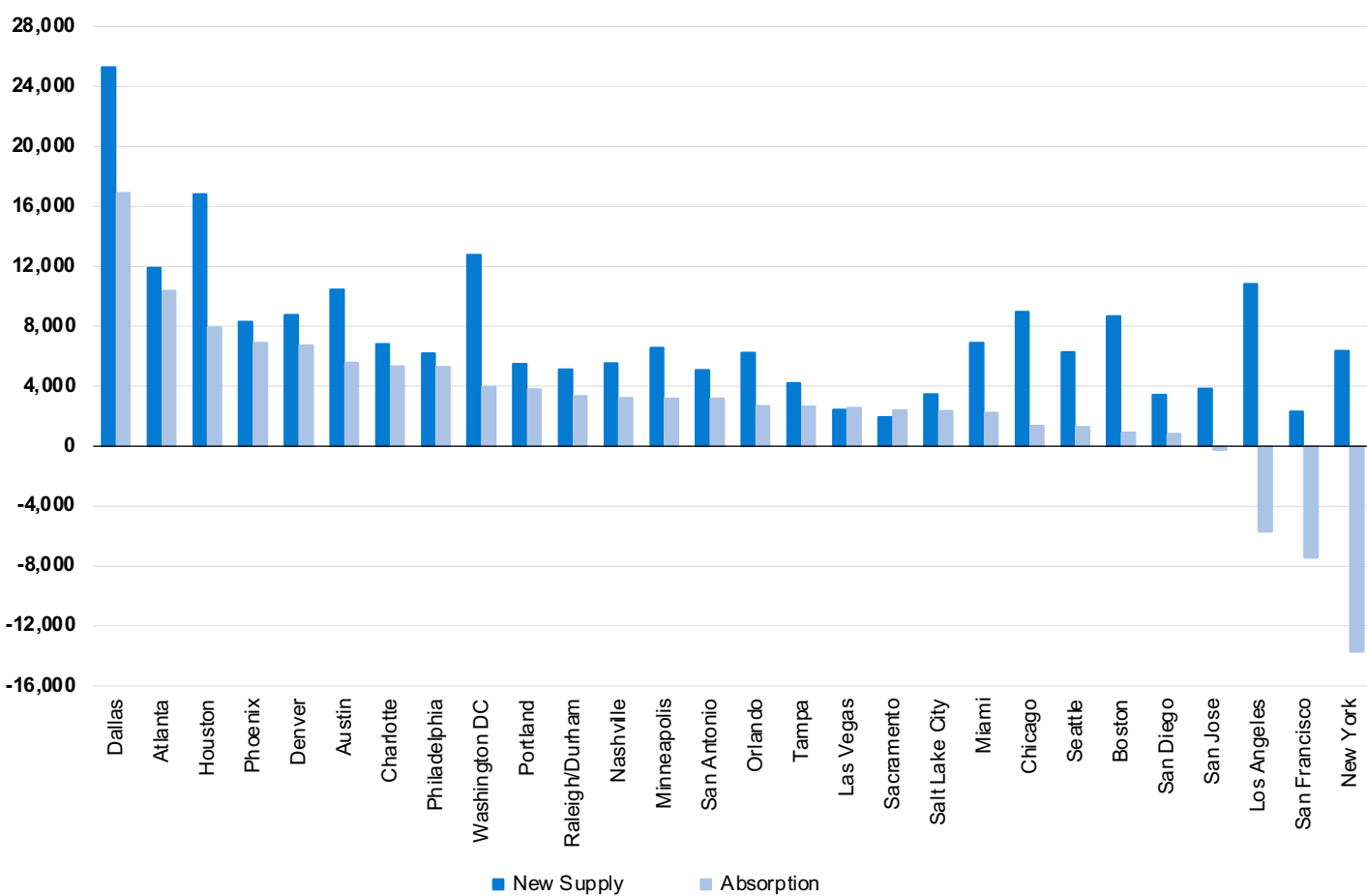



MARKET ANALYSIS

AUSTIN SUPPLY AND DEMAND, QUARTERLY



SUPPLY AND DEMAND BY MARKET, ANNUALIZED



An aerial photograph of a winding, light-colored road or path that curves through a dense, dark green forest. The road has several small, dark rectangular markers or signs along its length. The perspective is from above, looking down at the road as it snakes through the trees.

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As reported by the Austin Business Journal, November 2020 was a record-breaking month for area single-family home sales. As jobs continue to flow into the city, demand is outpacing available inventory and driving up home prices. Inflated pricing coupled with near non-existent housing supply levels will benefit the multifamily market as in-migration shows no signs of slowing down.



# Employment

Austin continues to stand strong in the face of economic disruptions, boasting one of the most successful employment growth stories of 2020.

As we move further away from the initial job drop-off in March and April due to mandated shutdowns concerning the COVID-19 outbreak, Austin is on track to have a banner year of employment growth. Combining job losses for March and April, Austin lost 128,600 jobs or 11.4%. Growth since then has brought back 100,300 of those jobs. With a seasonally-adjusted unemployment rate of seasonally adjusted 5.3% as of October, Austin outperforms all major Texas metros and boasts the 13th lowest rate among the top 50 metros nationally.

## Austin #1 in the nation for recovering metros

Looking at the job difference between October 2019 and 2020, Austin's year-over-year decline of 1.9%, or 21,100 jobs, makes it the best performing among the 50 largest metro areas.


U.S. BUREAU OF LABOR STATISTICS

## The Great Texas Migration

Texas has long been coveted by CFOs for its business-friendly tax structure and low cost of operations. With a year that has forced change in innumerable ways, many companies seized the opportunity to finally pull the relocation trigger. With a talented workforce of over 14 million, top research universities, access to global markets and the nation's top exporting state, Texas has seen an increase in the number of relocation prospects since the pandemic started with 196 active relocation or expansion projects in the pipeline as of September 2020.







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**“Texas’ business-friendly climate paired with the Austin region’s abundant talent pool and incredible quality of life makes us a magnet for businesses. The Austin region has proven itself to be resilient even amidst the pandemic.”**

**CHARISSE BODISCH,  
GREATER AUSTIN CHAMBER OF COMMERCE  
SENIOR VICE PRESIDENT OF ECONOMIC DEVELOPMENT**



Austin in particular is experiencing a record-setting year in terms of attracting new businesses. As of November 2020, 35 companies have announced relocation or expansion plans that will bring 9,790 jobs across the city, breaking the previous record set in 2018. Additionally, over 5,000 separate jobs can be attributed to local company expansions.

The largest announcement came from Tesla, the most valuable automaker in the world, which plans to create 5,000 jobs at its future \$1.1 billion gigafactory in southeast Austin. Other highlights include Oracle moving its headquarters from California to its cloud campus in Austin, Facebook seeking over one million more square feet of office space downtown and Amazon leasing over one million square feet and under construction on a 3.8 million square foot facility, which will employ over 1,000.

#### **The Tesla Effect**

Tesla’s expansion into Central Texas is poised to have a much larger impact on the region’s workforce, in the form of more jobs from Tesla and its many suppliers, according to a panel discussion during the second annual East Austin Growth Summit that took place in October 2020. During the summit, it was predicted that closer to 15,000 jobs could be created at the gigafactory because of the scope of the carmaker’s planned operations.

Tesla’s new factory also opens up an opportunity for continued advancement within Austin’s business community, particularly in the high-tech sector. Tesla is not only a world-class car manufacturer – it has built a reputation as a leader in technology as a whole. Economic experts estimate more than 50 companies could potentially follow Tesla to Austin in the form of suppliers and support services, bringing with them talent, tax revenue and additional innovation.



# Notable Employer Announcements

Austin continues to attract some of the highest-profile corporations to “Silicon Hills,” the city’s apt nickname as several of Silicon Valley’s most iconic businesses are establishing roots in the area. Apple, Facebook, Tesla, Amazon,

Google, Oracle and Indeed are a few of the heavy hitters that have created or are poised to create tens of thousands of jobs over the next decade. This year alone has seen major announcements of relocations, expansions and job creation.



## Oracle moves its headquarters to Austin

In December 2020, Oracle announced the relocation of its headquarters from California to its massive riverfront campus in Austin. While many Bay Area companies are flocking to Texas, this move by Oracle is by far the most significant given its clout in the tech space. Oracle choosing to move its headquarters to Austin could be the vote of confidence needed to encourage others to follow suit.

As of today, Oracle employs about 3,000 at its 560,000 square foot campus on Riverside Drive and with a 420,000 square foot expansion already under construction, it could employ up to 10,000.



## Tesla's \$1.1 billion gigafactory coming to southeast Austin

By far the biggest story of the year in Austin is Tesla's announcement to build its \$1.1 billion manufacturing campus in Austin, the company's second in North America. The automaker purchased an initial 2,100 acres off of SH 130 along the Colorado River and has since added another 381 acres.

Construction is underway on the initial eight million square foot manufacturing facility, and the company plans to have this first phase completed by May 2021. At full build out, the facility is expected to employ at least 5,000 people. Additional plans for the campus include a public boardwalk and several miles of hike and bike trails, described by CEO Elon Musk as an “ecological paradise”.



# 35

## CORPORATE RELOCATIONS

Companies are moving to Austin for low cost of doing business

# 9,790

## JOB'S CREATED BY RELOCATIONS

Record number of jobs from relocations and expansions in Austin

# 5.3%

## UNEMPLOYMENT RATE

Austin leads Texas in lowest unemployment rate

# #1

## BEST PERFORMING METRO

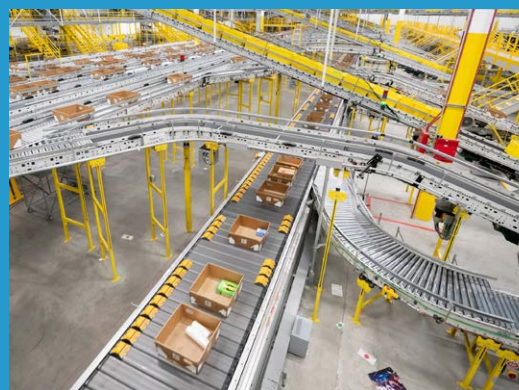
Lowest drop in employment among top 50 metros



## Facebook in the market for more office space downtown

On top of its current two offices downtown, Facebook is reportedly in the advanced stages of securing one million additional square feet of office space in downtown Austin. Currently there is not one single building that can accommodate an office of this size, therefore, reported plans say the company seeks to split their needs between 6 X Guadalupe and Indeed Tower, two of the largest under construction office towers in the city.

If Facebook leases the space, it would make the company the largest downtown tenant. In pre-pandemic conditions, one million square feet would quantify 5,000 employees, a significant increase compared to the current 1,300 Facebook employees in Austin.



## Amazon eats up space in the Austin suburbs

Already one of the largest employers in the Austin area, Amazon has continued to add to its Central Texas headcount in recent months. Due to the rising demand for e-commerce, the Seattle-based tech giant continues to add a variety of distribution facilities across the region, having leased more than 748,000 square feet of industrial space recently in Buda, Kyle and Round Rock.

Most significantly, construction is underway in Pflugerville on a 3.8 million square foot distribution facility. The facility will sit on 94 acres, create over 1,000 new jobs and be the largest facility of its kind in the region once built.





# Sources and Acknowledgments

Austin American-Statesman	Multi-housing News
Austin Business Journal	Newmark Research
Austin Culture Map	Opportunity Austin
Austin Investor Interests	PwC
Axiometrics	Real Capital Analytics
Bisnow	RealPage
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Costar	U.S. Census Bureau
Forbes	
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