

An aerial photograph of the Austin skyline at dusk. The image shows a mix of modern glass skyscrapers and older brick buildings. The Texas State Capitol is visible in the distance, illuminated with warm lights. A prominent blue-tinted skyscraper is on the left, and a building with a green-lit, pointed roof is on the right. Light trails from cars on a busy street run through the center of the image. The sky is a deep blue with some clouds.

4Q20 Austin Multifamily Market Update

NEWMARK

JW MARRIOTT

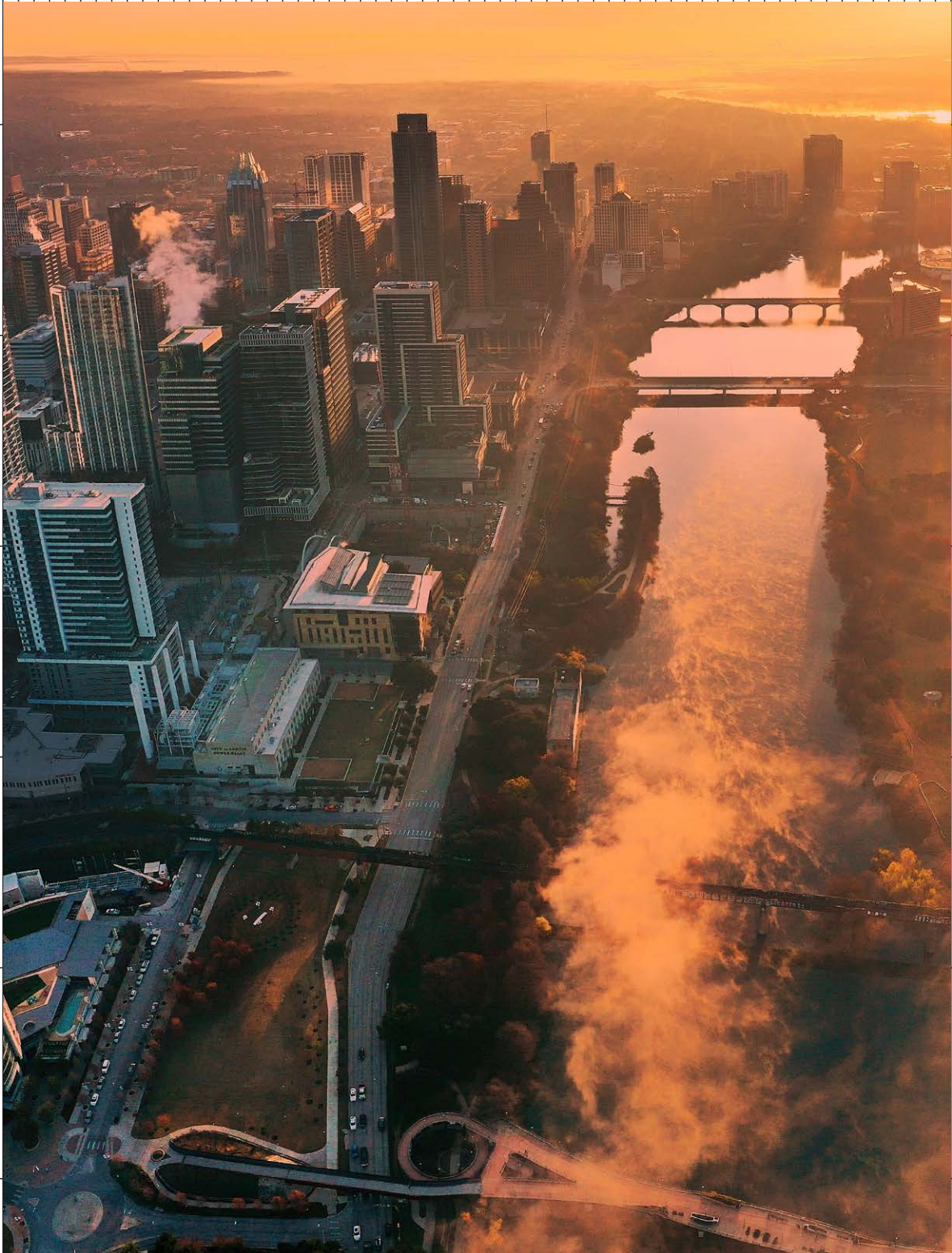


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Key Takeaways



Sales Volume

Investor confidence in the multifamily sector returned as activity picked up substantially in the second half of 2020 with national volume for the year totaling \$138.7 billion. Austin finished the year with a strong fourth quarter, recording 22 transactions totaling 6,827 units with an average price per unit of \$206,657. The market totaled more than \$3.8 billion in sales for 2020, ranking 6th nationally. Multifamily investment allocation in Austin was 68.4% of total commercial real estate sales in 2020.



Rent Collections

Multifamily rent collections have been resilient since the pandemic began, never dropping below 91.7% in 2020, according to NCREIF. Austin saw 96.5% of rent payments collected in 4Q20, which outperformed the national average of 93.8%. Secondary markets in particular continue to fare better than those with dense urban populations like New York and Los Angeles, but overall, most markets saw significant improvement throughout the year as economic conditions rebounded across the country.



Rent Growth

Quarterly rent growth for the U.S. multifamily market fell to -0.6% in 4Q20, while annualized rent growth dropped to 0.1%. Austin's effective rents declined in lockstep with the rest of the country, but it still outperforms the southwestern region in terms of effective rents. A thriving economy and booming population growth will bolster recovery as vaccines become widely available and the effects of the pandemic burn off.



Total Returns

Austin remained a top market in terms of total returns and ended the year with total annualized returns at 3.0%, outperforming the national average of 1.8%. As a whole, total national multifamily total returns accelerated in the second half of 2020, with 4Q20 returns rising 162 basis points from the 2Q20 low of -0.6%.



Supply and Demand

In the seven quarters leading to the pandemic-induced economic disruptions, annualized demand outpaced completions. While absorption took a hit in 2020, Austin did not end the year with negative demand, as was the fate of many other major metros. The market is expected to balance over the next five years thanks to elevated levels of job creation and in-migration.



Employment

By the end of 2020, Austin had a record year in terms of jobs created as a result of company relocations and expansions. There were 109 expansions and 45 relocations announced, equating to a total of 21,864 jobs. With this level of growth, Austin has been able to maintain a year-over-year job loss of just 1.0%, making it the third 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.

Destination City for Relocating
(Allied Van Lines, 2021)

SECOND CONSECUTIVE YEAR

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)

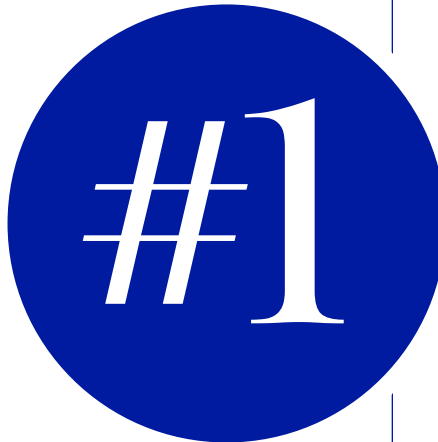
THIRD CONSECUTIVE YEAR

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)



4Q20 AUSTIN MSA MULTIFAMILY STATS

91.5%

average occupancy

\$1,267

average effective rent

\$1.47

average effective rent psf

\$206,657

average sales price per unit

2,315

new units added

Source: Apartment Trends by Austin
Investor Interests

Sales Volume

Multifamily sales volume in 4Q20 totaled \$56.7 billion, representing a 115.2% quarter-over-quarter increase, surpassing 4Q19 as the largest quarterly investment sales figure to date.

Topping the previous highest monthly total in December 2019 by 6.3%, sales volume for December 2020 totaled \$24.9 billion as pent-up demand from multifamily was met with greater for-sale opportunities.

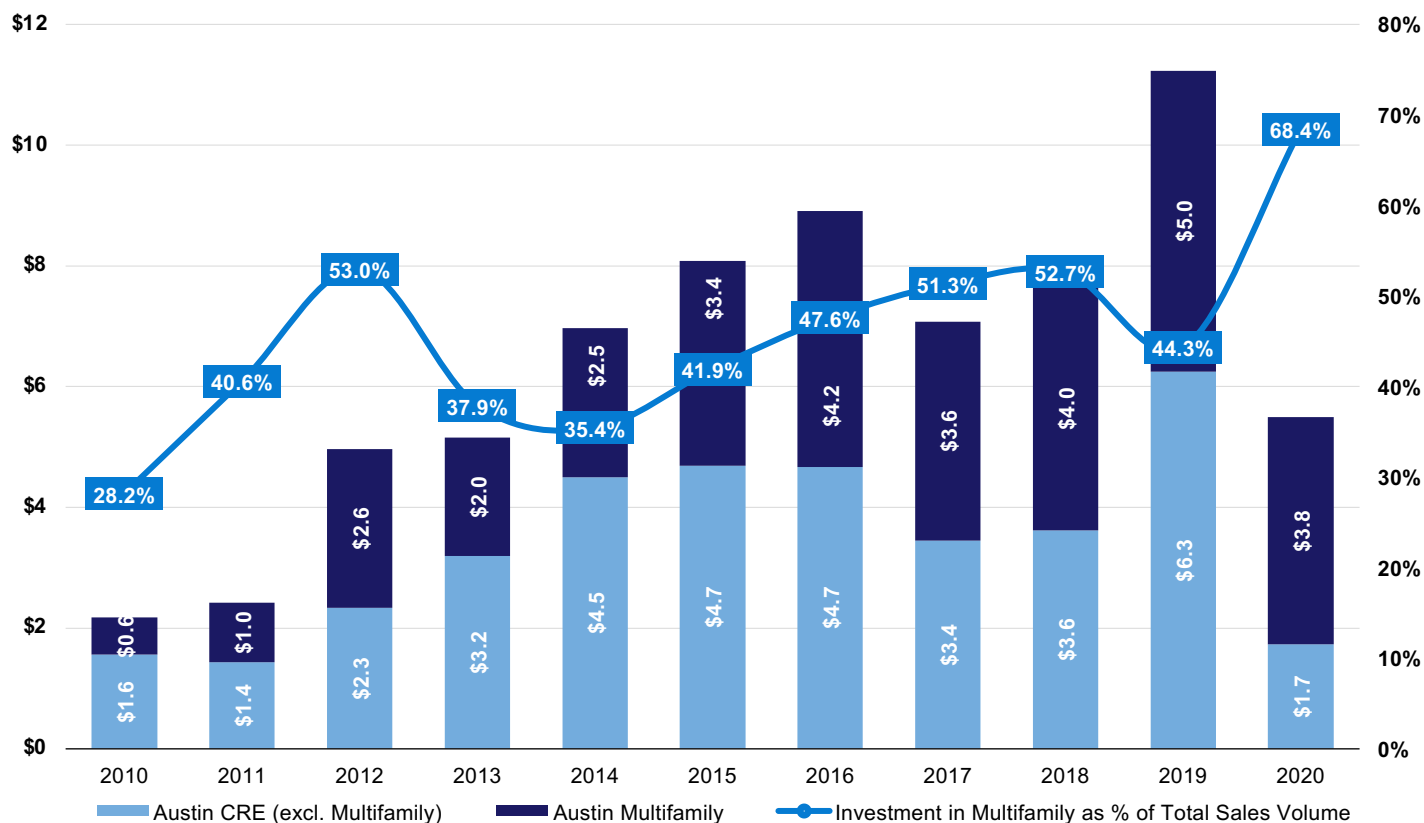
Austin ended the year with \$3.8 billion in transaction volume. While the number of sales was down from the previous year, pricing remained relatively stable.

Investor allocation toward multifamily is at an all-time high, raking in 34.2% of all commercial sales volume in 2020 – an 8.1% increase over the long-term average of 26.1%. Austin saw a 24.1% increase over 2019 with 68.4% of all commercial trades going towards multifamily. Investors shifted their capital to the sector after traditional retail, office and hospitality markets continue to experience pandemic-related disruptions.

Density issues brought on by COVID-19 accelerated the trend of multifamily investors favoring non-major markets, which received 75.8% of investment dollars in 2020, a record high.

NEWMARK RESEARCH

INVESTMENT ALLOCATION TO MULTIFAMILY, ANNUALIZED (IN BILLIONS)





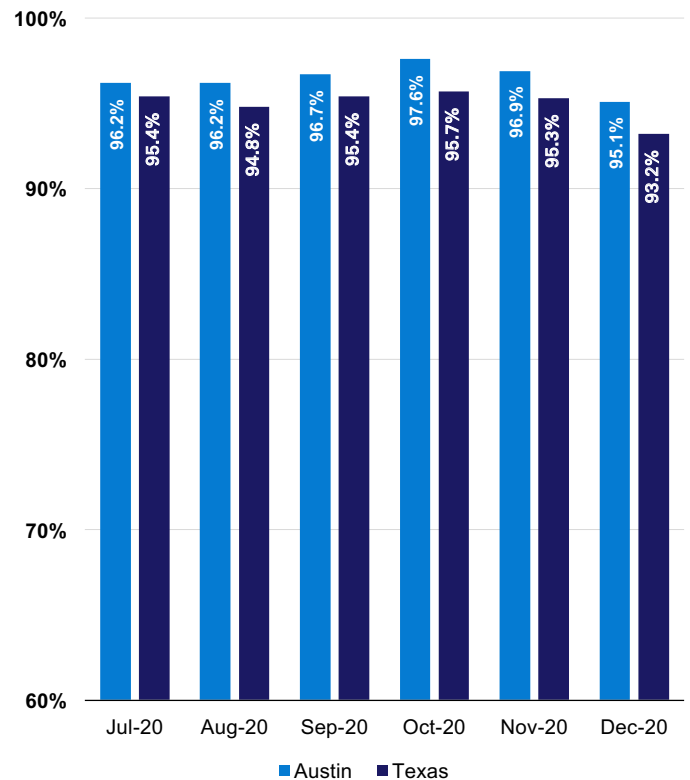
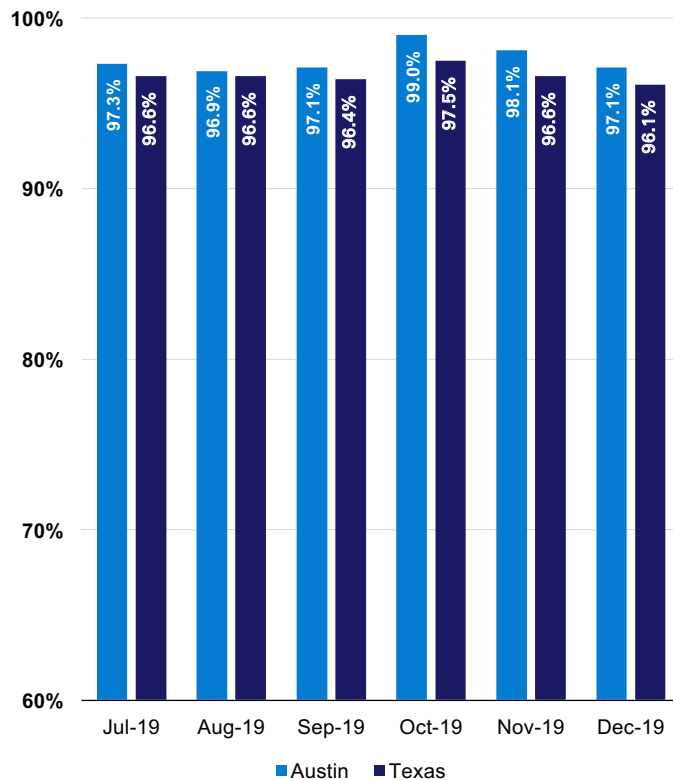
Rent Collections

Multifamily demonstrated its resiliency with rent collections never dropping below 91.7% in 2020.

Along with industrial, multifamily was the only property type to never dip below 90% collected rent during the unexpected economic downturn of 2020. While rent collection continues to vary widely from market-to-market, several areas are recovering and seeing improved collections in 4Q20 compared to the initial onset of COVID-19.

Austin outperforms the nation and Texas with 96.5% of rent payments collected for 4Q20 and has steadily remained over 95% throughout the year.

RENT COLLECTIONS 2019 VS. 2020



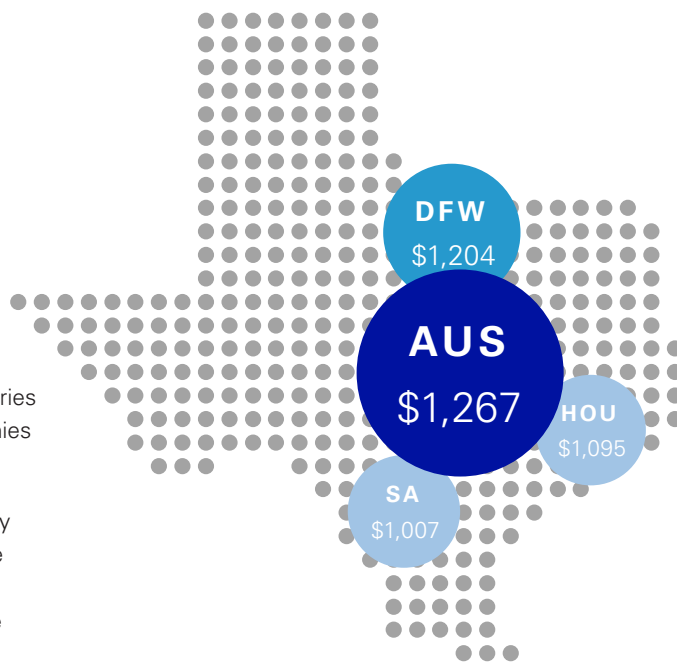
Source: Newmark Research, NMHC, NCREIF

Rent Growth

Rent growth in the Sunbelt markets has continued to outperform the national average, which fell to 0.1% for 2020.

Only a handful of markets saw rental gains as the national average hit its lowest annual growth rate in a decade. Forecasts point to modest recoveries in 2021 as vaccines become more widely available and state/city economies continue to reopen and rebound.

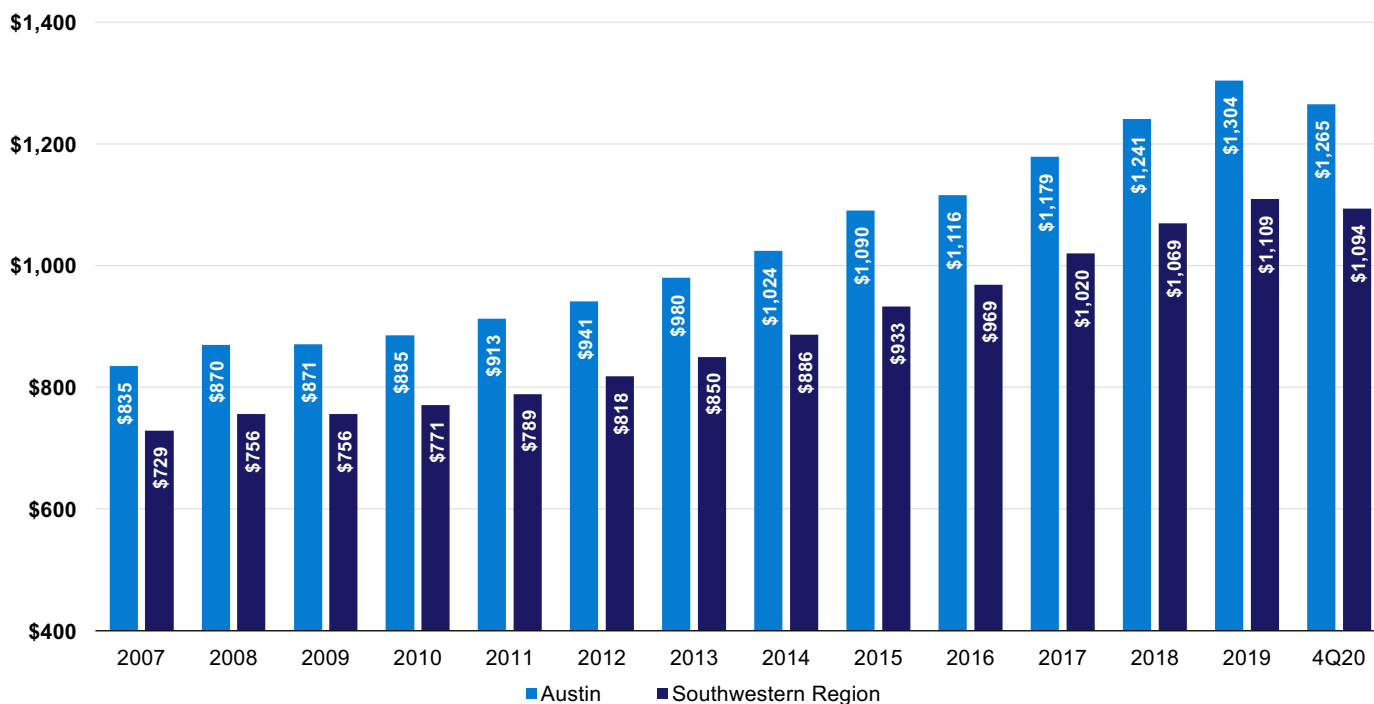
While rent growth has been stifled in Austin due to the pandemic, the city experienced a 0.01% drop in effective rent quarter-over-quarter to end the year, indicating the beginnings of a V-shaped recovery heading in to 2021. Additionally, Austin's rental market continues to outperform Texas and the southwestern region as a whole.



Long-term, structural drivers position Austin to realize rent growth around 2-3% as the economy rebounds, with some potential for outperformance.

REALPAGE

EFFECTIVE RENT IN NON-MAJOR MARKETS



Source: REIS

Austin Remains on Top

For the third year in a row, Austin earned the #3 spot on the Miliken Institute's Best-Performing Cities report. The 2021 report, which aims to provide meaning for comparing metro areas' recent performance, emphasized jobs, wages and high-tech growth in its index metrics this year.

Austin also ranked first and second in one-year job and wage growth, respectively, and fourth in both five-year job and wage growth. In high-tech growth from 2014-2019, the city ranked ninth.

More than just a university and government city today, Austin's economy has diversified immensely over the past decade, featuring a large cohort of major tech companies jumping ship from California to set up campuses and headquarters in the Texas capitol. This strong mix of public and private sectors creates a resilient job market that has now weathered two major economic downturns relatively unharmed. In contrast, last year's top-ranked city by Miliken, San Francisco, fell to #24 due to major job loss and high housing costs. Austin's balanced market helped it keep its ranking steady, a mighty feat after a year that ravaged high-growth markets.



Austin boasts a relatively low cost of living despite a thriving tech sector and has marketed itself as friendly and open to business relocations.

MILIKEN INSTITUTE

AUSTIN BEST PERFORMING CITIES INDEX RANKINGS

Source: Miliken Institute

#3

Overall Ranking

#1

Job Growth (2018-19)

#2

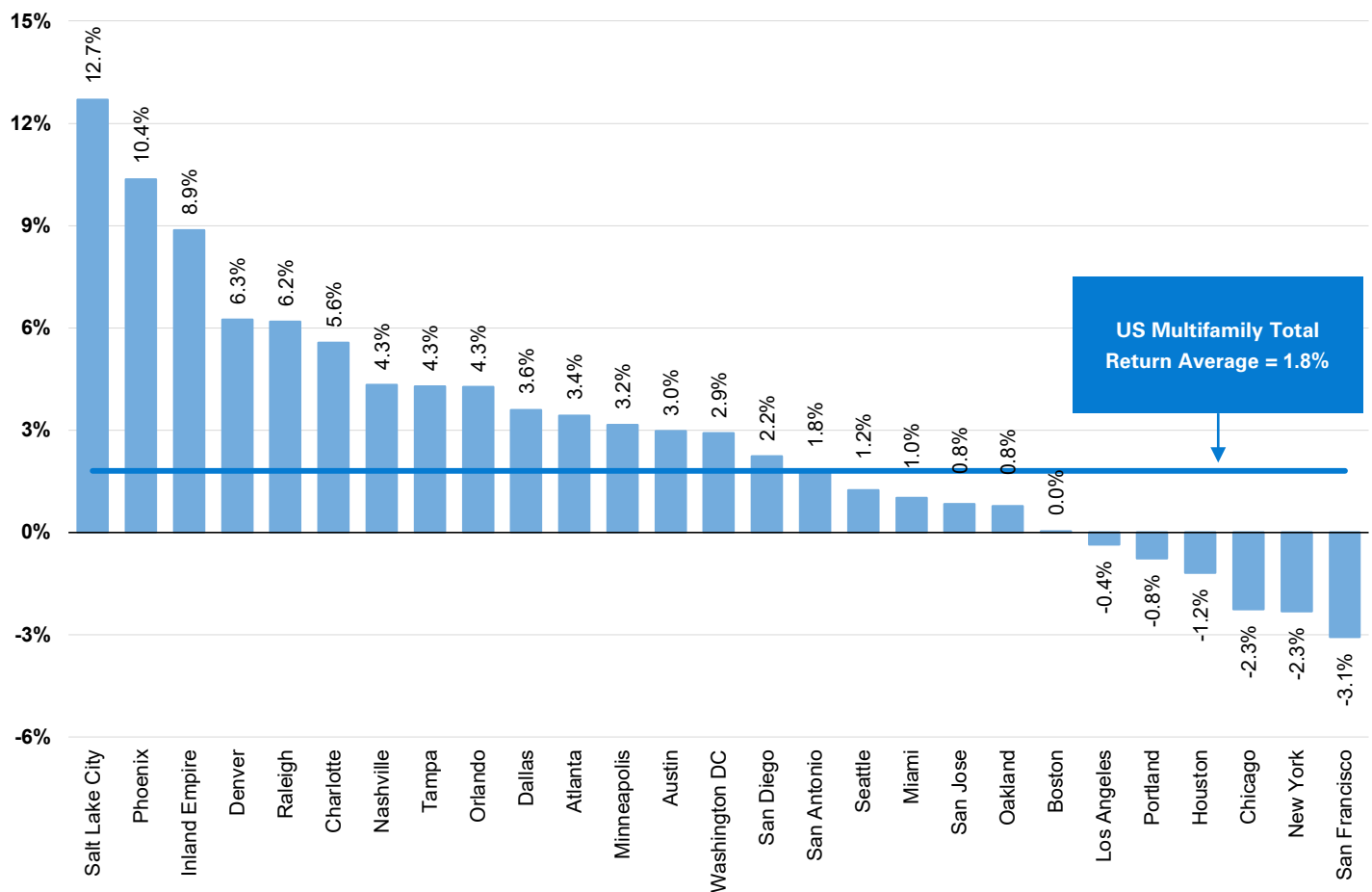
Wage Growth (2018-19)

#4

Job & Wage Growth (2014-19)

MARKET ANALYSIS

TOTAL RETURNS BY MARKET, ANNUALIZED



Source: Newmark Research, NCREIF

Total Returns

The year finished strong with total returns increasing in the latter half of 2020, balancing out the dip that occurred in the second quarter.

While multifamily values were negatively impacted by the COVID-19 pandemic, according to the National Council of Real Estate Investment Fiduciaries' (NCREIF) Appreciation Index, the income generation for multifamily properties remained strong, keeping total returns positive in 2020. Three quarters of the top 16 markets by total returns are in the Sunbelt, including Austin coming in at 3.0% and outperforming the national average of 1.8%.



Supply and Demand

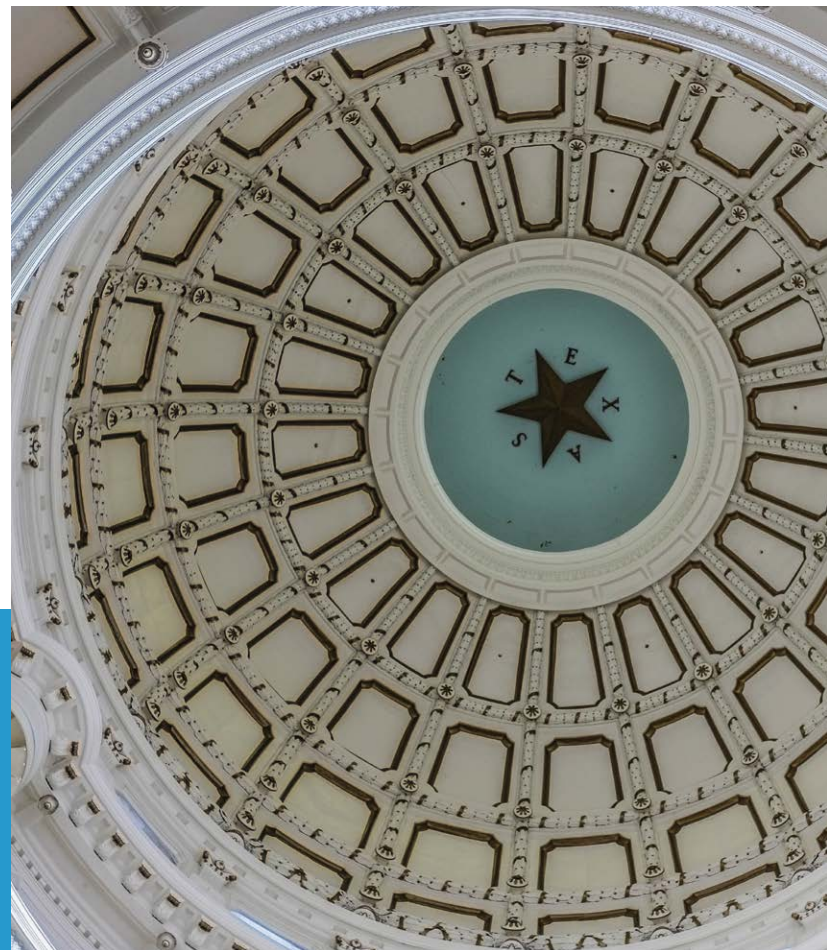
Inventory grew by 344,380 new units across the nation, representing a 1.9% annual increase and the highest level of new deliveries on record.

Sunbelt markets continue to drive the highest demand and garner the most attention from multifamily investors and developers. In 2020, Austin added 9,923 units, a 4% increase to the market's existing unit base – the fastest-growing inventory rate among the nation's top 50 markets.

While new unit deliveries have been spread across the city, the Cedar Park-Leander submarket saw the most development in 2020, indicative of the growing demand for suburban product. Despite elevated supply, five-year forecasts show the market balancing as demand is likely to remain strong due to strong economic drivers, namely continued job and population growth.

With a growing number of tech companies set to relocate from California to Texas, experts anticipate that the state will see a swell in new apartment demand as employees and job hopefuls move to follow.

MULTIFAMILY EXECUTIVE



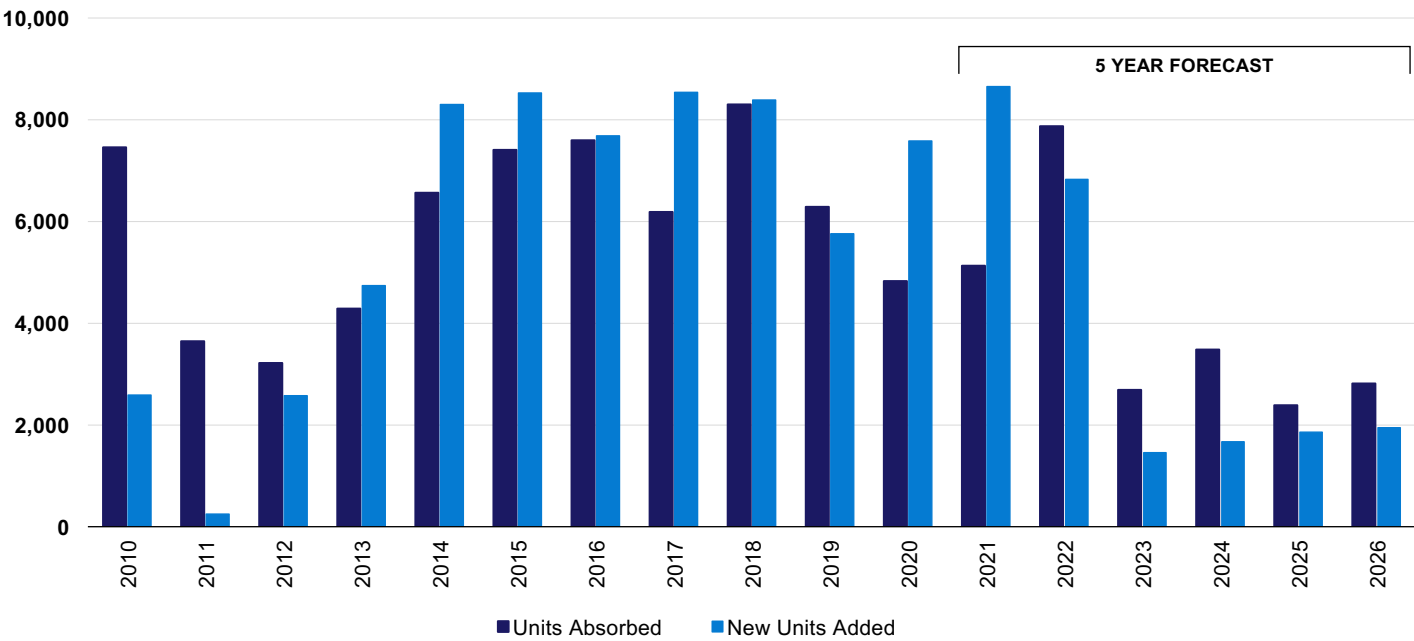
White-Hot Housing Market Faces Inventory Crisis

The Austin MSA ended 2020 with a record-breaking \$17 billion in single-family home sales, a 16.2% year-over-year increase. Median home prices also rose 15.8% to \$370,000. However, the market is strained with inventory at all-time lows. At year end, the Austin Board of Realtors (ABoR) reported inventory at 0.6 months, compared to 1.7 months in 2019. Experts indicate that a healthy home market has an inventory closer to six months. The inventory shortage will continue to drive prices even higher as demand is expected to remain elevated throughout 2021. Multifamily development becomes a crucial part of balancing affordability and sustainable economic expansion in a housing market with shrinking supply.

"This near-zero level of housing inventory throughout the region is staggering, and it will put enormous pressure on home prices," said 2020 ABoR President Romeo Manzanilla. Tens of thousands of jobs are expected to flow into the city over the next year and with housing affordability becoming a pressing issue, the multifamily market will be able to capitalize on this pent-up demand.

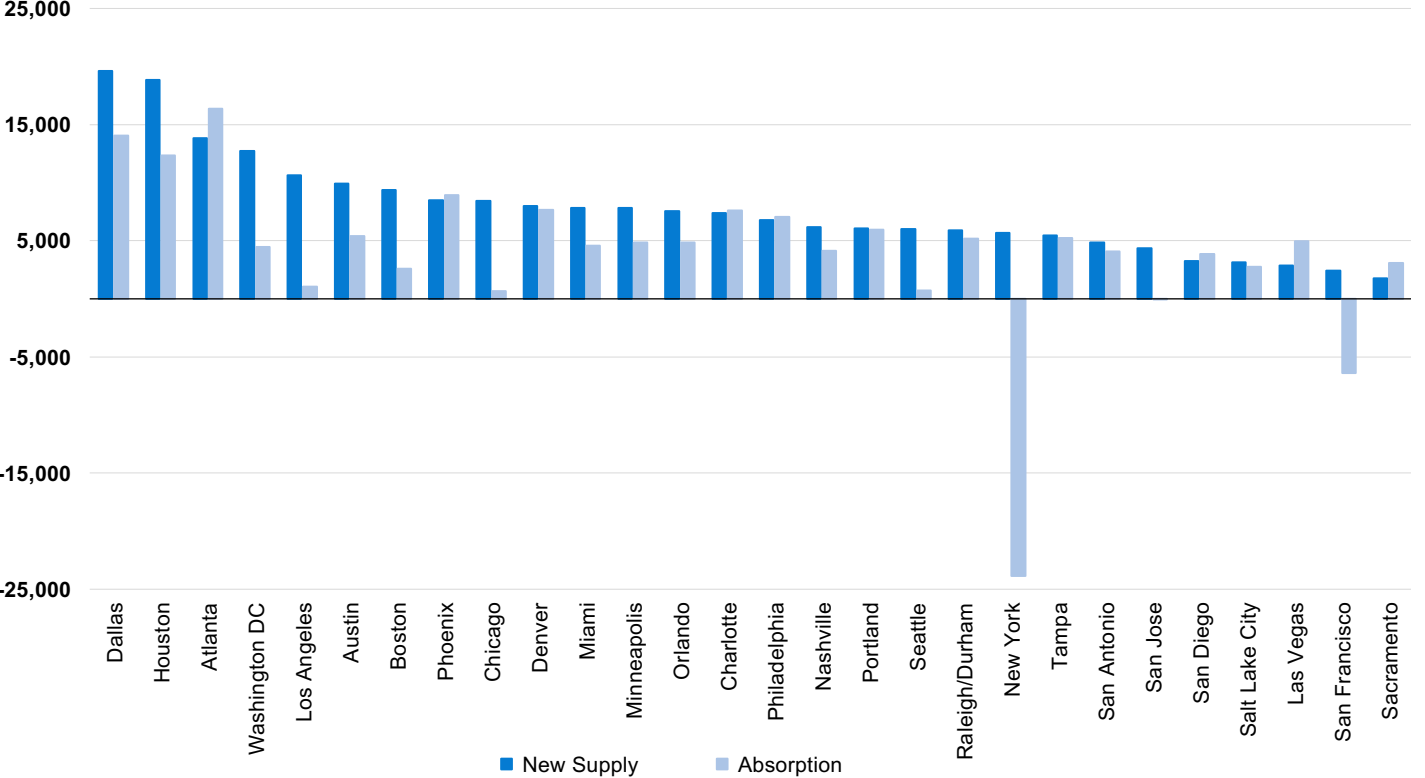
MARKET ANALYSIS

SUPPLY AND DEMAND, ANNUALIZED + PROJECTION



Source: REIS

SUPPLY AND DEMAND BY MARKET, ANNUALIZED



Source: Newmark Research, RealPage

Newmark Insights

Our Managing Director, Andrew Dickson, dives deep into the question on every investor's mind, "What about supply?"



What is fueling the supply boom, and will demand be able to keep up?

Developers naturally follow positive macro fundamentals like job creation and migration patterns, particularly in business-friendly environments. Texas, more specifically Austin, checks most of those boxes, so the supply boom comes as no surprise. In the two years prior to the pandemic, Austin had about 17,000 units delivered but 18,500 units were absorbed. In 2020, Austin was the third-best performing metro when it came to the least amount of jobs lost. We are big believers in the long-term supply and demand fundamentals in Austin because of the job growth story here. In 2020 there were 45 companies that announced corporate relocations or expansions in Austin, which will create thousands of jobs over the next few years.

What impact does the single-family housing market have on multifamily supply/demand metrics?

Austin's single-family supply is dangerously low at around 0.6 months. This has created outstanding opportunities for apartment developers and owners, particularly in the suburbs where many people are forced to wait for 12-18 months to buy or build a home.

What has been the defining trend of Austin's supply/demand story over the past five years and what is the outlook for the next five?

Over the past five years, Austin has been near the top of third-party research companies' lists from a new supply standpoint. This has always raised the question "Is this too much supply?" However, Austin has continued to absorb these new units with developers consistently selling at or above their underwritten exit values. Despite new supply each year, properties continue to lease up in 12-18 months. Over the next five years, we believe the defining trend will be an increased pursuit of the suburban submarkets and, specifically, further east in Austin as the land along SH-130 continues to develop and companies looking to relocate find cheaper land for campuses and industrial facilities.

Employment

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

Not one market posted positive annualized employment gains in 2020. However, Austin ranked third in the nation with only a 1.0% year-over-year employment decline. The city's attractive business climate, young demographic profile and robust existing workforce fueled a banner year for relocation and expansion announcements, resulting in a record-breaking 21,864 expected jobs. High-profile companies the likes of Oracle, Tesla, Amazon and BAE Systems were among the standouts, creating national buzz for the capitol city.

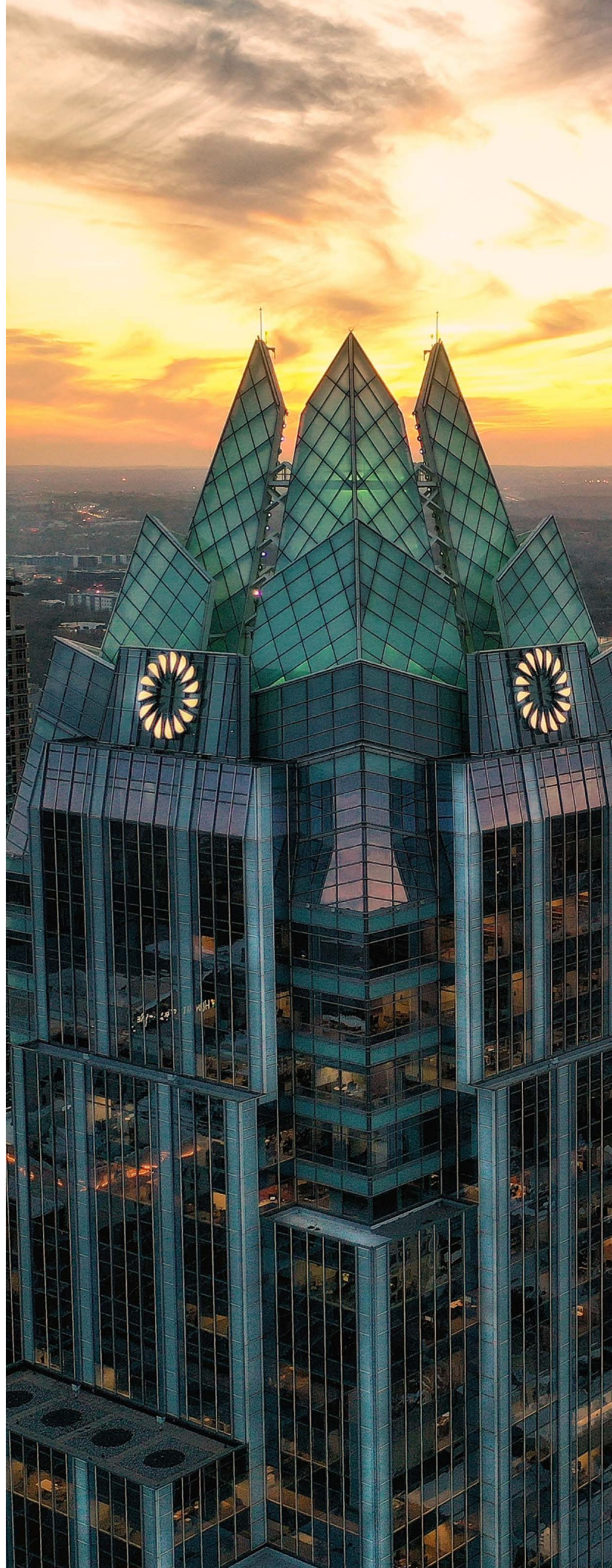
2021 Doubling the Pace

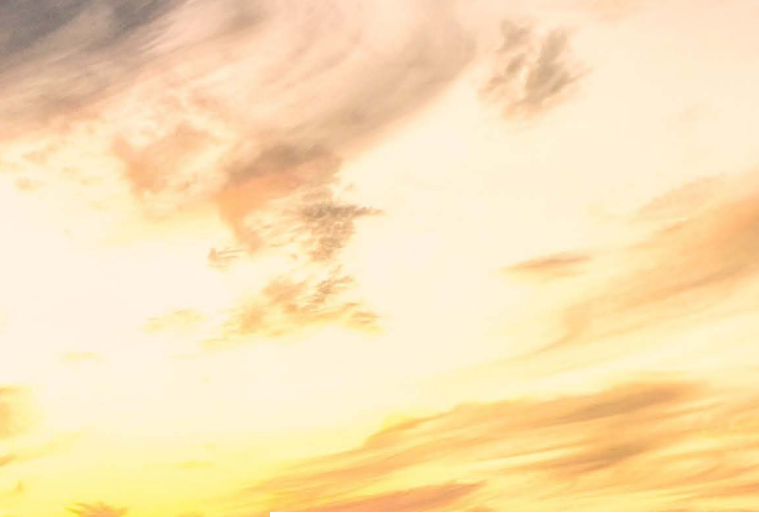
The expansion shows no signs of slowing as by February 2021, there have been more than 1,800 jobs announced from companies moving to or expanding in Austin, a pace double that of last year for the first two months of the year.

OPPORTUNITY AUSTIN

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 was ranked the #1 state for jobs added by the U.S. Bureau of Labor Statistics in 2020. Texas also enters 2021 as the ninth largest economy in the world with a GDP of \$1.9 trillion.





“Tesla’s decision to locate its newest Gigafactory in Austin will expand and enhance our innovative culture while also providing new and exciting career opportunities for all segments of our Central Texas workforce. The company’s pioneering spirit and advanced manufacturing technologies will be instrumental in our region’s economic recovery and our sustainable growth for the longer term.”

GARY FARMER, OPPORTUNITY AUSTIN CHAIR



Keep Austin Growing

Relocation and expansion highlights include Oracle moving its headquarters from California to its cloud campus in Austin, aerospace and defense technology giant BAE Systems announcing a \$150 million campus that will accommodate over 1,400 employees and Amazon leasing over one million square feet while under construction on a 3.8 million square foot facility, which will employ over 1,000.

However, the largest and most exciting relocation announcement by far 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. In fact, this deal won the Greater Austin Chamber of Commerce the Business Facilities 2020 Deal of the Year Gold Award.

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, BAE Systems 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.



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”.

Job Growth Outlook

2020 IN REVIEW

45

CORPORATE RELOCATIONS

Companies are moving to Austin for low cost of doing business

21K+

JOBS CREATED

Record number of jobs from relocations and expansions in Austin

5.1%

UNEMPLOYMENT RATE

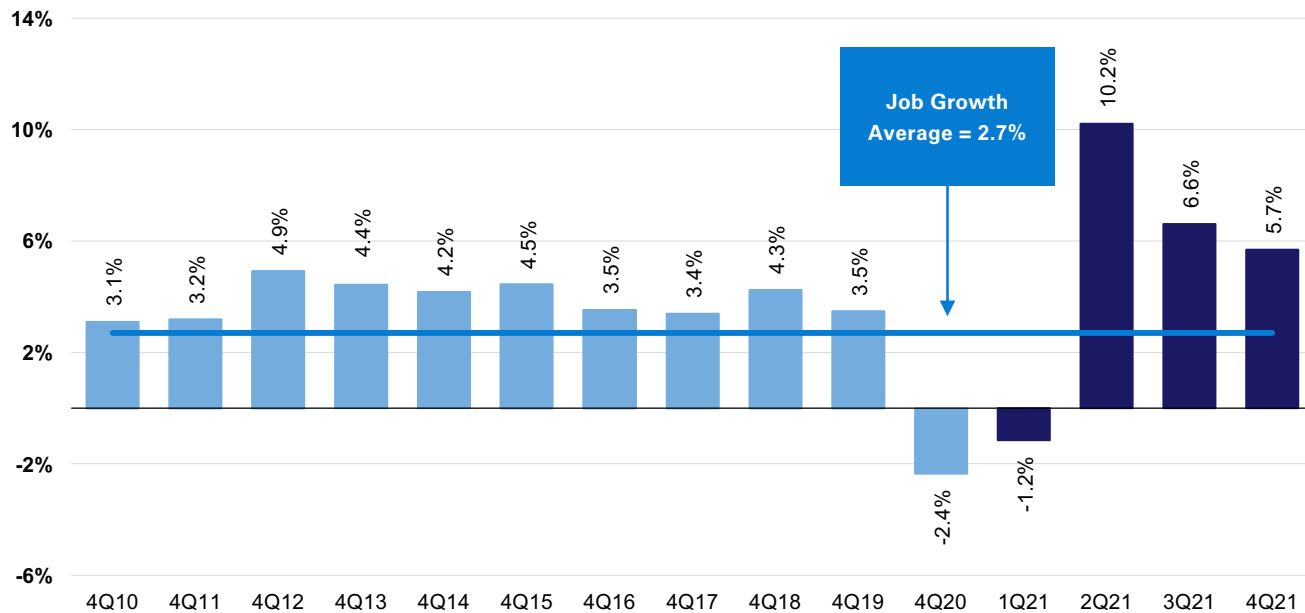
Austin leads Texas in lowest unemployment rate

#3

BEST PERFORMING METRO

One of the lowest job loss rates among top 50 metros

JOB GROWTH, QUARTERLY + PROJECTION



Source: Axiometrics

“The Austin region’s diversified industry base, outstanding talent pool and great quality of life continues to attract companies with a variety of jobs, even in the midst of a pandemic.”

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



Sources and Acknowledgments

Apartment Trends by Austin Investor Interests	LaborIQ® by ThinkWhy
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Austin Business Journal	Multi-housing News
Austin Culture Map	Multifamily Executive
Axiometrics	NCREIF
Bisnow	Newmark Research
Brookings Institute	Opportunity Austin
Connect CRE	PwC
Costar	Real Capital Analytics
Esri	RealPage
Forbes	REIS
Globe Street	U.S. Bureau of Labor Statistics
Greater Austin Chamber of Commerce	

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