

# Multifamily Research

## 2018 INVESTMENT FORECAST

### Austin Metro Area

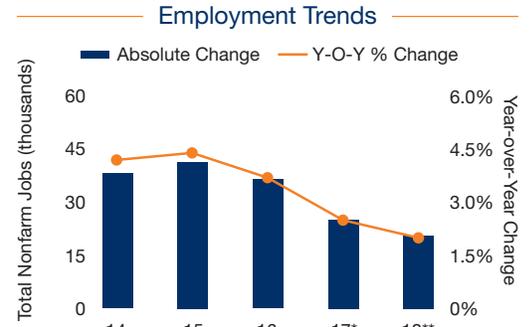
#### Interest in Homeownership Making Shift in Austin; Good News for Apartments

**Declining homeownership rate reinforces healthy apartment demand.** Steady job creation is spurring a strong pace of net in-migration and household formation trends in Austin. A majority of these new residents are favoring apartments as rising home prices push the concept of ownership out of reach for many, and the homeownership rate fell from a high of 71 percent in 2006 to just over 50 percent in the third quarter of 2017. As renting becomes a favored option, positive net absorption fell short of supply additions by just 6,000 units over the last five years; developers added nearly 50,000 apartments during the span. Softening vacancy remains limited to select neighborhoods, such as the area just east of I-35 near downtown and farther south near Slaughter Lane, as well as northwest at Anderson Mill and Highway 183. Deliveries in 2018 fall to a five-year low, shifting from these submarkets of higher vacancy into other areas where vacancy is in the low- to mid-4 percent band.

**Investors scour Austin metro for unique opportunities.** Healthy demographic trends and a shift in residents' attitude away from homeownership keep investors optimistic about the Austin apartment market. Values have risen nearly 50 percent above the previous peak achieved in 2007, but a slowdown in rent growth is contributing to a normalization of price appreciation. The flattening appreciation could spark additional listings that will be met with avid buyer interest. Investors who are most intimate with the market will be positioned to capitalize on any property inefficiencies, generating future returns above 6 percent. In addition to properties located within central Austin, assets located along the I-35 corridor from San Marcus in the southern portion of the metro to Georgetown in the north are highly sought after. Growing suburbs such as Cedar Park and Pflugerville also generate healthy investor interest.

#### 2018 Market Forecast

- Employment** ↗ A tight labor market slows job gains as employers create 20,500 positions this year. The pace of growth remains above the national level while the unemployment rate is one of the lowest in the country.  
up 2.0%
- Construction** ↘ Completions reached a new peak in 2017 as 12,800 units came on-line. This year's delivery of 8,300 apartments will be the lowest since 2013.  
8,300 units
- Vacancy** ↗ Supply additions outstrip demand for a third consecutive year and vacancy rises to 6.2 percent, remaining near the 15-year average.  
up 30 bps
- Rent** ↗ The average effective rent advances to \$1,243 per month in 2018. This is approximately \$750 lower than the monthly mortgage payment on a median-priced home.  
up 2.3%
- Investment** ○ High land and materials costs have kept building mostly limited to higher-quality apartments, producing a steady stream of investment options for institutional capital seeking new assets.



\* Estimate; \*\* Forecast; \* Through 3Q; \*\* Trailing 12-month average  
Sources: CoStar Group, Inc.; MPF Research; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of November 2017. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.