AFFORDABLE CENTRAL TEXAS

Austin Workforce Multifamily Report
Winter 2018

Welcome to the Affordable Central Texas Workforce Housing Multifamily Report. We will periodically be producing a review of Austin area trends, statistics and insights that affect workforce housing. ACT considers workforce housing to be comprised of individuals and families making between 60% and 120% of area median income. Workforce is comprised of teachers, nurses, musicians, artisans, bank tellers and entry level professional works who make Austin the interesting and vibrant place that we live. According to Yardi, the Class B and C properties that house Central Texas' workforce total 72,355 units in 394 properties. Average rents across all unit sizes is $1,083/month, which would require over $43,000 of annual income to be affordable, or just below 80% for a one person household. Greater detail on the overall market and the workforce sector in particular is included in the report.

New Supply - Current construction of Class A units has slowed rental rate growth at the upper end of the spectrum while competition for more affordable units remains strong. No new construction of units affordable to workforce individuals and families has occurred in over 5 years. Economic returns that justify new construction can't be met at workforce rents. While natural migration of Class A properties to B will occur as these properties age, the pace is not sufficient to provide for the demand for workforce affordable units or the removal of units through tear down or rehabilitation.

Debt - the acquisition and refinance mortgage market continues to be dominated by Fannie and Freddie. Banks have pushed back from providing construction financing in response to the current oversupply in Class A and A+ properties. It is expected that construction lending will return in 2019 or 2020 if absorption of the outstanding new Class A units is completed as expected. Some bank debt to meet CRA requirements is available to finance acquisitions of affordable communities.

Please feel free to contact us to discuss this market sector in greater detail.

Overall Market

Construction:

Funding constraints and a labor shortage caused a decline in new starts in the final quarter of 2017 but 2018 is expected to bring another wave of self-finance construction.

12,800 units to be completed

Vacancy

Following a large influx of new units in 2017, vacancy rates have grown to 5.9%.

70 bp increase in vacancy

Rents:

Two consecutive years of rising vacancy rates contributes to a slow down in rent gains. Class B/C units continue to show a higher growth rate than Class A units.

2.6% increase in effective rent

Spread in Rents Keeps Demand Healthy for Class B/C Apartments

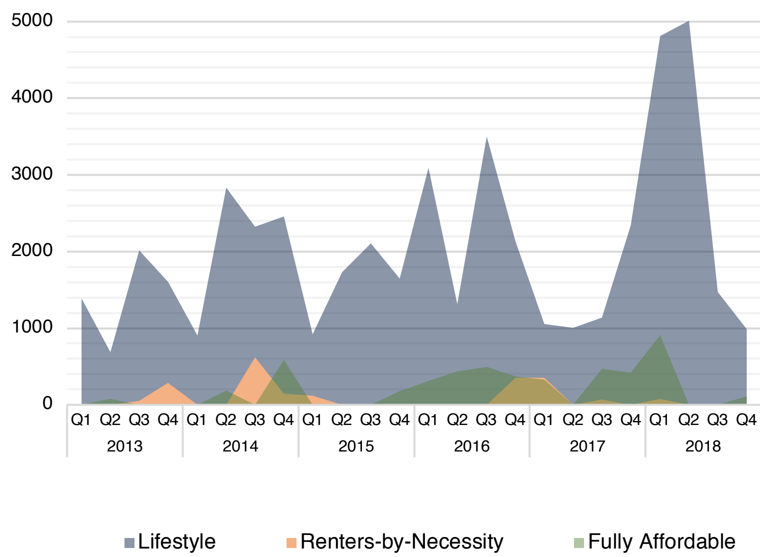
Tight labor market, and steady household formation keep demand for apartments high. As job growth in Austin slows this year and the labor market tightens, the apartment market shows signs of stabilizing. Healthy in-migration trends and employment gains are producing strong demand for units and development reached a new peak in 2017. Workforce housing needs are rising in the market as new households are formed at a stable pace. Though Class A supply additions will outstrip demand for a second consecutive year, vacancy remains at a still-tight 6.0 percent, contributing to a continued increase in the metro's average effective rent.

Class C apartments boast tightest conditions, produce robust rent growth. Apartment vacancy is tightest for Austin's Class C units, reaching 5.3 percent in the third quarter. Low vacancy in this segment has encouraged strong rent gains over the last 12 months, with the average effective rent climbing more than 4% to over $1,000 per month. Development activity is concentrated in the Class A segment, and the spread between effective rents in the two classes is large enough to keep many renters from moving into newer luxury buildings. As a result, demand for upgraded older properties will remain strong.

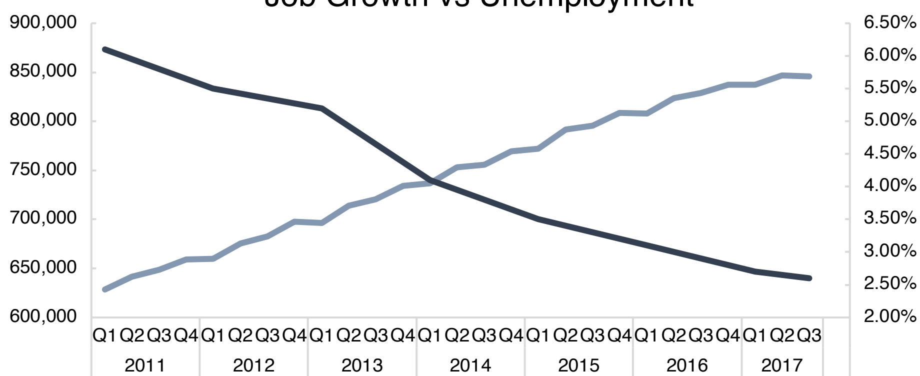
Overall Market Cont.

- Competition in the Austin investment market is intense driving values and properties remain in high demand.
- The threat of rising interest rates looms but has not had an impact on property values. However, investors remain optimistic about job growth and strong demographic trends in the metro, keeping buyer confidence high. Properties located along the I-35 corridor from San Marcos to Georgetown are highly sought after.
- Though down from a cyclical peak, apartment building activity remains elevated, producing thousands of luxury, Class A apartments. As these properties come online and are stabilized, institutional buyers will find new investment opportunities.

Construction: Historical and Forecasted



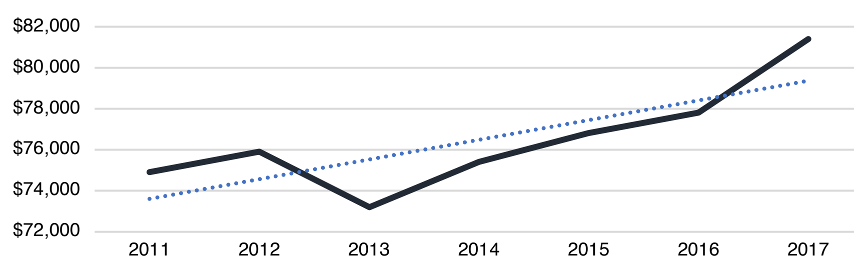
Job Growth vs Unemployment



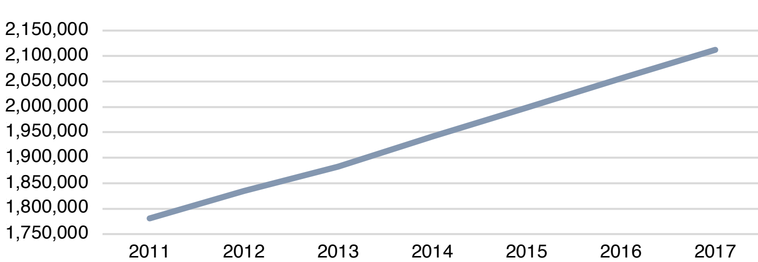
Austin's employment continues to grow adding 23,500 jobs in the year ending in September 2017. Construction, and Education and Healthcare services had the greatest increases of 6.2% and 5.6% respectively. With the completion of the new Oracle campus as well as the possibility of Amazon bringing their HQ2 to Austin, job growth is expected to continue at a similar pace in the coming years.

Median Family Income finally grew at a strong rate from 2016 to 2017 at 4.42% compared to the 2% yearly average from 2013 to 2015. 2018 is projected to have similar growth to that of 2017 before flattening out and returning to around 2% in the coming years.

Median Family Income

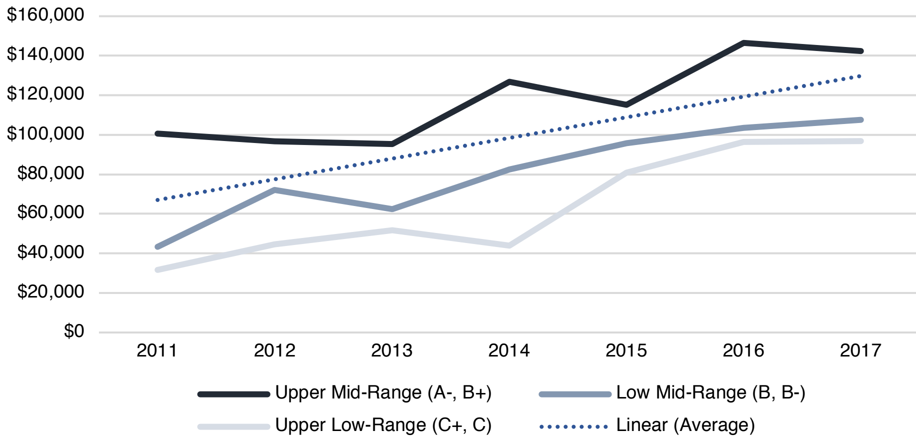


Population Growth



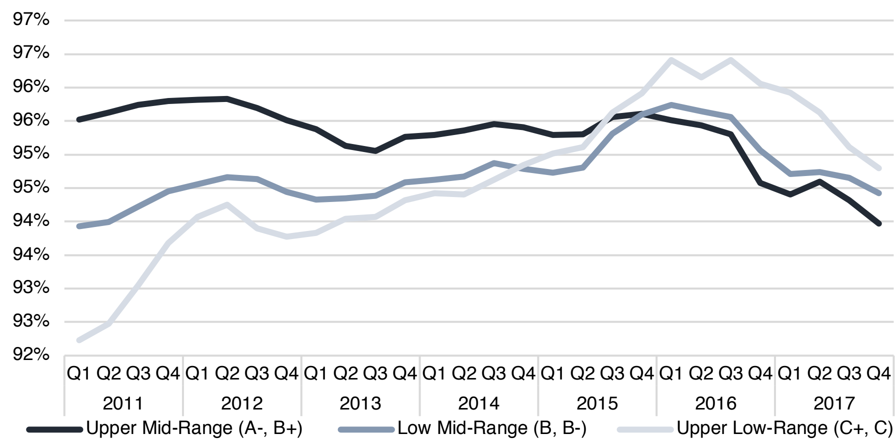
With a growth of just under 3% the Austin-Round Rock MSA population continues to increase at a rate not seen in many other parts of the country. Although growth is slowing from previous years the U.S. Census Bureau expects Austin to consistently show higher growth rates then most of the country's major metros, expecting to reach a population of 3,040,000 by 2030.

Workforce Per Unit Sales Values



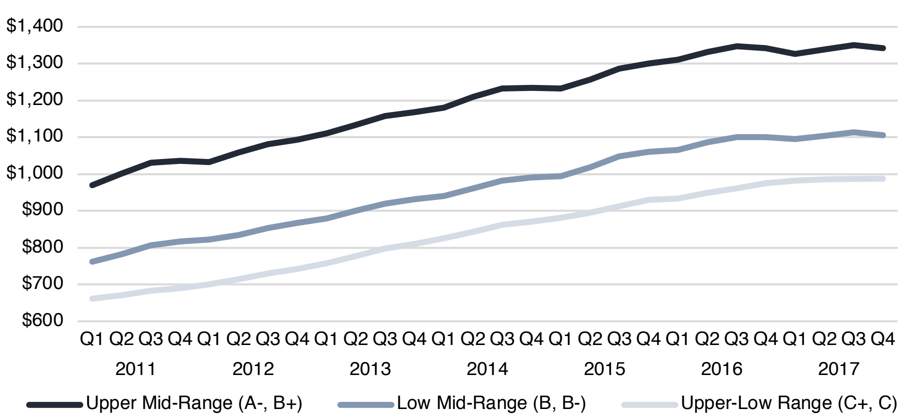
Apartment sales remain strong as over 1 billion in property value traded hands in the past year. The average price per unit advanced 7 percent to $119,500 per door. Apartment demand remains intense as companies and individuals continue to find the market an attractive place to work and live. Investors will remain active, seeking properties with upside potential.

Workforce Occupancy Rates



Occupancy rates have flattened out across most asset classes at just above 94%. Workforce housing leads with the highest occupancy rates across all asset classes at above 94.5%. Occupancy is expected to continue declining over the next few years before flattening out and beginning to grow again at the end 2020.

Workforce Monthly Rental Rates



Although a heavy new supply of Class A apartments is creating a flattening of rent growth throughout the Austin-Round Rock MSA, Class B and C properties continue to show growth rates higher than Class A, with a 90 bp increase in rental rates as of November 2017, compared to a 30 bp loss in Class A properties. Rent growth is expected to rise throughout 2018. As development slows and new units are absorbed, Yardi Matrix predicts an overall rent growth of 1.3% by the end of 2018, returning to above 2% by the end of

Sources: Yardi Matrix, Axiometrics, U.S. Department of Housing and Urban Development, Marcus&Millichap Services, Bureau of Labor Statistics, Austin Investor Interests LLC.