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Media Contact
Ward for Austin Apartment Association
Ania Czarnecka 713-351-9165
aczarnecka@wardcc.com
Alisha Wade 713-498-4496
awade@wardcc.com

Austin Apartment Association Issues State-of-the-Industry Report

Economic indicators, corporate relocations signal need for more rental housing, rental aid

(Austin, TX – February 1, 2021) … As the rental housing industry enters 2021, Austin Apartment Association today issued a State-of-the-Industry Report, including insights into the local economy, current housing and multifamily market trends and forecasts, area construction and development activity, and local pandemic economic impacts on rental housing.

Local economy, housing aid helps preserve rental housing during pandemic

According to Austin economist Jon Hockenyos, president of TXP, Austin today is in better economic condition than the rest of the country, or elsewhere in the state, with promising prospects for a 2021 eventual upswing given a K-shaped recovery already evident.

According to LinkedIn data, Hockenyos said, Austinites have reason to feel optimistic. The region led the nation in individual relocations in 2020, followed by Charlotte, Tampa and Denver. The state capital city continues to attract major corporate relocations, including Tesla, The Boring Company, Oracle and BAE Systems, with many more employers, such as Samsung, expressing interest in the area's available workforce, potential for tax relief on businesses hailing from the West Coast, and relatively rare severe weather events.

"With a steady influx of new residents and the increasing likelihood of restored wages once widespread vaccinations occur, the city must add quality, attainable housing to meet the stated expectations of housing by these employers," said Emily Blair, executive vice president of Austin Apartment Association. "Since it takes three to four years from community concept to the first resident move-in, we must work together as a community to ensure new rental housing inventory is keeping pace with company relocation plans."

Austin-area unemployment peaked at 12.5% in May 2020, according to the U.S. Census Bureau. While more than half of those employees have returned to the workforce, Austin still has an elevated number of unemployed residents compared to pre-pandemic years. Roughly 5.7% remain unemployed as of November 2020.

Austinites across all income groups reported lost wages during 2020. Roughly half of those earning between $50,000 and $150,000 a year experienced lost wages, with those earning less than $35,000 a year hardest hit. Some 61% of those earning between $25,000 and $35,000 a year lost income in 2020 while 68.2% of those making less than $25,000 took home less pay than in the year prior.

"In light of these household budget shortfalls, rent assistance kept many Austinites safe at home," said Blair. "Lingering economic uncertainty has many locals concerned about their ability to pay rent going into 2021, so challenges remain.

"However, one positive outcome of this tragic year of losses has been collaboration among many stakeholders who care about housing needs in our community," she added. "Those who know how to build and operate rental housing are sharing their knowledge with community leaders, government agencies and local charities, and the conversations have shifted from blame and fear to productive solutions. It's vital that our federal, state and local elected officials help deliver renter aid during the long-term recovery while adopting policy that allows these positive partnerships to progress into meaningful actions for the good of all."

Pandemic produces change in consumer behavior, increased costs of providing rental housing

"What makes Austin, Austin – the array of cultural experiences – made the area's hourly workers more vulnerable to job losses, especially in the hospitality, music and events sectors," Hockenyos said.

According to pandemic data site, tracktherecovery.org, as of January 12, 2021 the time Austin residents spent outside of their homes decreased 21.7% compared to January 2020, which increased online shopping and reduced local retail sales consistent with trends nationwide.

"These loss-of-income and consumer behavior trends produced a double-whammy effect on the apartment industry, which houses many hourly-wage workers needing housing assistance," explained Blair. "Costs increased significantly, regardless of property size or age, to securely manage packaged goods deliveries and invest in touchless technology and virtual tours along with a host of other unbudgeted pandemic-related health and safety expense," she said.

National Apartment Association Chairman and President, Multifamily, Asset Services at Cushman & Wakefield, Rick Graf, noted: "In terms of operating expenses for US multifamily properties, the greatest increases stemmed from personal protective equipment, sanitation, and technology investment for virtual tours, digital marketing, touchless devices, package delivery and storage. According to a National Apartment Association survey from September, 21 percent of respondents said expenses increased by at least 50 percent in 2020."

Single-Family Housing Market Impacts Rental Housing

Homeownership was on the rise in Austin in 2020, reflecting the national trend stimulated by historically low interest rates, which the pandemic further accelerated. According to the U.S. Census Bureau, in second quarter 2020, the U.S. homeownership rate was 67.9 percent, up from 64.1 percent in second quarter 2019.

In 2020, Austin experienced record levels of single-family homes sales. With demand exceeding supply, the city dropped to 0.6 months of inventory, which is far short of the 6-month supply representing a balance between seller and buyer markets. Record-low mortgage interest rates and shifting homebuyer preferences toward additional living space contributed to robust demand. Homes in the Austin area remained on the market for only 33 days. Austin's median home price increased 21.3 percent year-over-year to $370,800. The average area home price as of December rose to $492,000, a 15.8 percent increase over 2019 prices. In 2020, 14.7 percent more housing permits were issued, compared to 2019, according to Texas A&M Real Estate Center. Overall, 40,165 area homes were sold, an increase of 8.4 percent.

“By most measures, single-family is outperforming multifamily, due to the pandemic-related demand for more spacious residences in suburban locations that accommodate learning and working from home,” said Hockenyos. “However, housing supply constraints and rising home prices, combined with the steady influx of new residents, may present challenges to the single-family market in the near future. Multi-family development will be vital to providing affordable, flexible housing choices, so that Austin remains an attractive option for corporations looking to relocate.”

Now is the time to lock in deals for Austinites seeking amenities, maintenance-free lifestyle, location

According to Apartmentdata.com, Austin experienced the largest rental rate decrease of the four Texas metropolitan areas, marking the lowest area rent prices since 2015. Austin’s overall rental rate fell by 5.1 percent. Dallas/Fort Worth and San Antonio ended 2020 with flat rental rates, with price increase of just 0.3 percent and 0.4 respectively, whereas Houston overall rental rates decreased by 1.2 percent.

All types of apartments in Austin, from Class A representing luxury properties to Class D low-income properties, experienced rental rate decreases, translating to cost-savings for renters signing new leases. Class A apartment rents decreased most, with a drop of 8.1%, according to Cindi Reed, vice president at Apartmentdata.com. This trend was also reflected, albeit to a lesser extent, in Dallas and Houston metros.

Area-wide, occupancy fell 2.9 percent to 88.6 percent. Some 6,122 units were absorbed compared to 9,588 in 2019. In 2020, 12,426 new apartment homes were added. Combined with existing inventory and the anticipated 11,500 new apartment homes to be delivered in 2021, and renter decisions to move in with family or friends in single family homes or shared apartments, Austin may experience a period of lower occupancy rates (87.9%) and only moderate rental rate growth of 2% in 2021, Reed suggested.

“While lower rental rates are welcome news for renters, given increased operational costs, including COVID-19 related expenses, increasing taxes and high construction costs, the multifamily industry will be challenged to invest in new housing supply, which our community needs,” said Blair. “As we recover from the pandemic, rent relief solutions and public-private partnerships for affordable property development will be an investment in housing security and the city’s ongoing ability to attract good jobs for Central Texans.”

Pandemic-year exodus from city core drives suburban market growth

In line with the national trend, Austin has experienced a residential exodus from its city core. With remote work the new norm, many Austinites chose to move to suburban areas, to find lower rents, larger homes and more open spaces.

The Downtown/ SoCo/ Barton Springs market was the most adversely affected by renter moves, resulting in a 14.2 percent rental rate decrease. UT/ Mueller, Northwest/ Arboretum/ Domain, St. Edwards/ South Lamar and Southeast/ Riverside Dr were also among the most impacted submarkets, with an overall rental rate decrease of 9.6 percent. Average occupancy in these submarkets in 2020 was 89.2 percent. The area added 2,213 new apartment homes (17.5 percent of the overall new inventory in Austin in 2020), but experienced net loss of 337 occupied units, compared to 2019. An additional 5,791 units are under construction – a little less than half of the new units originally expected to be built in metro Austin in 2021.

Away from the metro core, West/ Sunset Valley/ Barton Creek, Research Blvd/ North Lamar, Pflugerville/ Tech Ridge/ Wells Branch and I-35 South submarkets experienced a moderate rental rate decrease of 4 percent, compared to the 5.1 percent decrease in overall Austin metro. These communities added 4,739 apartment homes in 2020 and absorbed 2,481 vacant apartments, to end the year with an occupancy rate of 88.5 percent. An additional 1,902 units are currently under construction.

The suburban submarkets of Cedar Park/ Leander/ Four Points, Northeast, Round Rock/ Georgetown, San Marcos/ Kyle/ Buda and Outlying Metro benefited most from Austinites moving away from the urban core in 2020, where they are likely to find larger apartments possibly for less monthly rent than available closer to downtown. These submarkets experienced an overall positive rental rate growth of 0.7 percent and an average 88.1 percent occupancy rate. While only 3,978 units were recently opened, 5,672 units were absorbed, demonstrating strong demand. Another 4,745 units are currently under construction.

Austin renter migration to suburban communities was also reflected in sales tax revenue growth in suburban areas. For example, Georgetown, Pflugerville and Cedar Park experienced consecutive double-digit sales tax revenue growth in November, December and January as new residents shop and dine near their new homes.

“The growing gap between rising single-family home prices and the lowest apartment rents since 2015 means renting will be an attractive option for many Austinites, whether they choose to take advantage of the opportunity to secure an apartment near 6th Street or enjoy the hometown feel of outlying communities,” said Blair. “Anticipating shifts in renter demand, new apartment communities are planned and under construction across the greater Austin area.”

Austin, US apartment owners meet pandemic challenges, support sound affordable housing policies
Nationally and locally, COVID-19 effects on the apartment industry varied by submarket and asset class. Universally, rent debt, eviction moratoria and other policies enacted in response to the pandemic pose potential risks to the industry in 2021 and beyond, according to Graf.

Graf also forecasts positive, albeit muted, rental rate growth and slight declines in occupancy throughout most of the US in 2021, before a more marked recovery in 2022. New supply predictions range from 300,000 to 400,000 units in 2021 as construction projects experience delays because of the pandemic and resulting economic downturn.

“U.S. apartment owners and operators are preparing for another challenging year, budgeting for declining revenues and increasing costs, both on the operating side and for capital expenditures,” Graf said.

“The industry was on solid ground when the pandemic started, coming off strong growth net operating income in 2019, which is what is needed to add homes for growing populations,” said Graf. “Further, we have witnessed the agile responses of owners and operators in working with financially challenged residents, adopting new procedures around health and safety, and embracing technological solutions. NAA policy priorities remain unchanged and are determined by three core principles: Reducing operational risk and operational challenges to housing providers, preserving housing affordability, and ensuring the continued viability of the housing industry through this crisis and beyond.”

“I am incredibly proud of our industry coming together to navigate the many challenges COVID-19 pandemic posed us as a community,” concluded Blair. “Our members not only continued providing housing for their residents, they provided valuable experience and expertise, working with elected officials and non-profit partners to create meaningful solutions and policies, advocating for rental relief, creating food pantries and organizing school supply drives, among countless other initiatives to help renters through this difficult time.”

About Austin Apartment Association

Founded in 1964, Austin Apartment Association represents more than 1,000 diverse businesses that own, manage and service more than 260,000 rental homes in the Greater Austin Area. Our mission is to advance the expertise and collective community impact of the rental housing industry. To learn more about the Austin Apartment Association, please visit our website at https://www.austinaptassoc.com.

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