Economic Conditions

The economy of the Austin HMA continued to grow after the HMA recorded job losses that started during the 12 months ending July 2009 and continued through the 12 months ending August 2010, when the national recession impacted the HMA. During the 12 months ending February 2014, total nonfarm payrolls in the HMA grew by 37,000 jobs, or 4.4 percent, to 870,000 jobs (Table 2). The unemployment rate during the same period decreased from 5.7 to 5.1 percent. By comparison, from 2000 through 2008, the unemployment rate averaged 4.6 percent. Figure 1 shows the labor force, resident employment, and unemployment rate in the HMA from 2000 through 2013.

Table 2. 12-Month Average Nonfarm Payroll Jobs in the Austin HMA,* by Sector

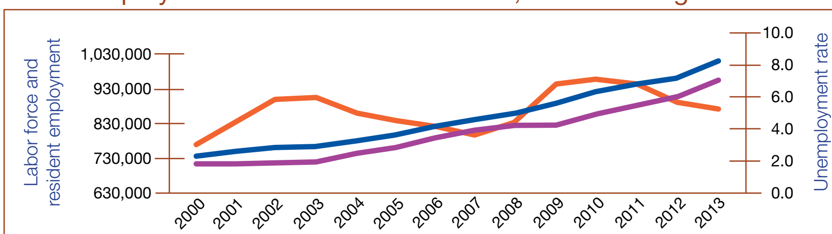
	12 Months Ending		Absolute Change	Percent Change
	February 2013	February 2014		
Total nonfarm payroll jobs	833,000	870,000	37,000	4.4
Goods-producing sectors	93,700	97,900	4,200	4.5
Mining, logging, & construction	42,600	45,500	2,900	6.8
Manufacturing	51,100	52,400	1,300	2.5
Service-providing sectors	739,200	772,100	32,900	4.5
Wholesale & retail trade	133,500	139,100	5,600	4.2
Transportation & utilities	14,000	14,400	400	2.9
Information	22,400	23,400	1,000	4.5
Financial activities	46,500	48,500	2,000	4.3
Professional & business services	126,700	135,900	9,200	7.3
Education & health services	98,300	100,800	2,500	2.5
Leisure & hospitality	95,200	102,300	7,100	7.5
Other services	36,000	37,900	1,900	5.3
Government	166,800	169,700	2,900	1.7

** Austin-Round Rock-San Marcos HMA.*

Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through February 2013 and February 2014.

Source: U.S. Bureau of Labor Statistics

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Austin HMA,* 2000 Through 2013



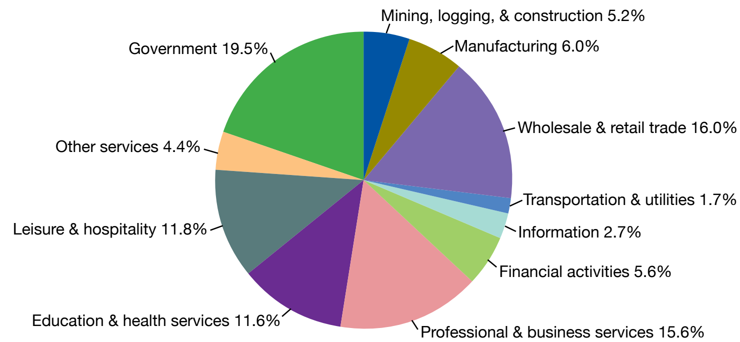
** Austin-Round Rock-San Marcos HMA.*

Source: U.S. Bureau of Labor Statistics

During the 12 months ending February 2014, all nonfarm payroll sectors grew. The professional and business services sector led job growth in the HMA, gaining 9,200 jobs, or 7.3 percent, to total 135,900 jobs. The wholesale and retail trade sector also recorded strong growth, gaining 5,600 jobs, or 4.2 percent, to total 139,100 jobs. Nest Labs, an automation company headquartered in Palo Alto, California, opened a technical support and customer service center in Austin in August 2013 and hired approximately 100 new employees, which contributed to gains in the professional and business services sector. The leisure and hospitality and the mining, logging, and construction sectors grew by 7,100 and 2,900 jobs, or 7.5 and 6.8 percent, respectively, during the 12 months ending February 2014. Tourism continued to increase following the national recession, contributing to job gains in the leisure and hospitality sector, and gains in the mining, logging, and construction sector are partially attributed to the increases in single-family and multifamily construction activity.

The government sector, which grew by 2,900 jobs, or 1.7 percent, during the 12 months ending February 2014, is the largest sector in the HMA (Figure 2) accounting for 19.5 percent of nonfarm payrolls. The city of Austin is not only the state capital but also is home of the flagship campus of the University of Texas. The state government of Texas is the largest employer in the HMA, with 44,550 employees, a figure that excludes employment in state higher education institutions (Table 3). The University of Texas

Figure 2. Current Nonfarm Payroll Jobs in the Austin HMA,* by Sector



** Austin-Round Rock-San Marcos HMA.*
Note: Based on 12-month averages through February 2014.
Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Austin HMA*

Name of Employer	Nonfarm Payroll Sector	Number of Employees
State of Texas	Government	44,550
The University of Texas at Austin	Government	24,200
Dell Inc.	Manufacturing	13,500
Seton Healthcare Family	Education & health services	12,650
HEB Grocery Company, LP	Wholesale & retail trade	11,300
St. David's HealthCare	Education & health services	7,950
International Business Machines Corporation	Professional & business services	6,000
Freescale Semiconductor, Inc.	Manufacturing	5,000
Internal Revenue Service	Government	4,000
Texas State University at San Marcos	Government	3,500

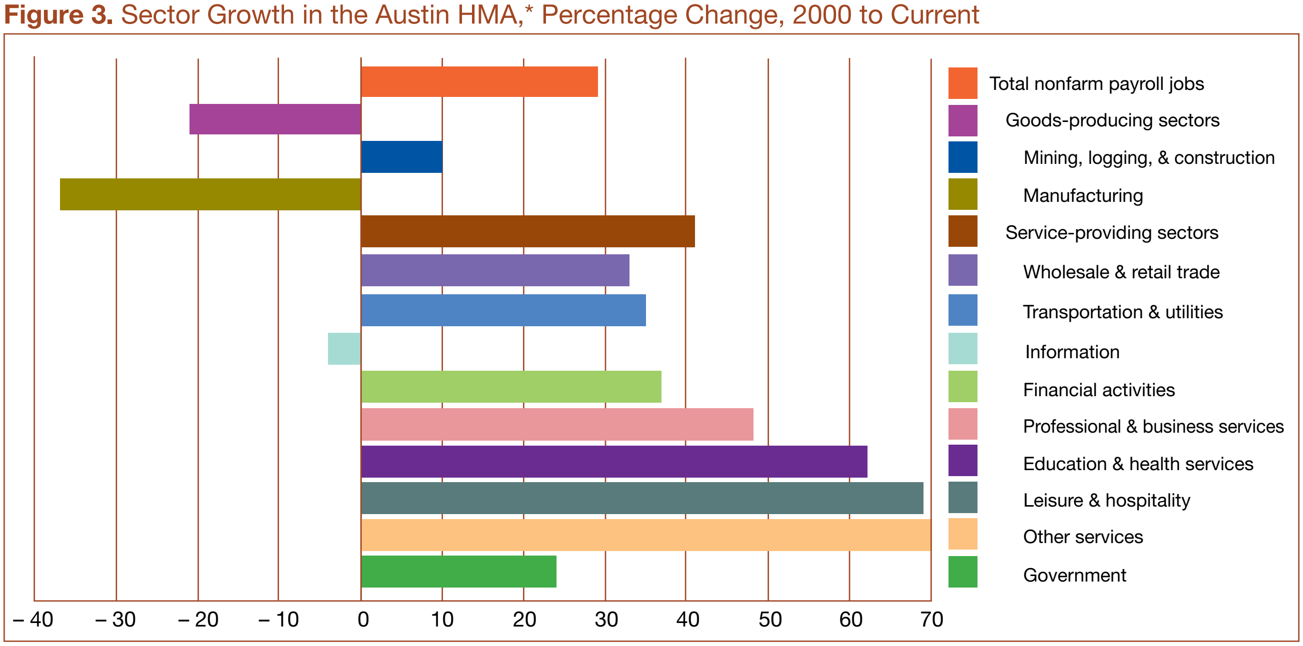
** Austin-Round Rock-San Marcos HMA.*
Notes: Excludes local school districts. State of Texas employment figures exclude The University of Texas at Austin and Texas State University at San Marcos.
Source: Estimates by analyst

at Austin (UT Austin) is the second largest employer in the HMA, with approximately 24,200 employees and more than 52,000 students. The university reported an annual statewide economic impact of $8.2 billion in business activity and $2.4 billion in personal income during 2010 (the most recent data available). Texas State University at San Marcos (TSUSM), in the San Marcos submarket, is the 10th largest employer in the HMA, with 3,500 employees and an enrollment of approximately 34,200 students. TSUSM has an annual statewide economic impact of more than $1 billion (TSUSM website, http://www.txstate.edu).

The HMA recorded strong nonfarm payroll gains from mid-2003 through mid-2008, averaging 25,000 jobs, or 3.5 percent, annually even as the national economic recession began in late 2007. From the 12 months ending July 2009 through the 12 months ending August 2010, most employment sectors lost jobs, and the mining, logging, and construction and the manufacturing sectors recorded the most losses. Only the education and health services, leisure and hospitality, and government sectors avoided job losses during the period. Since mid-2010, nonfarm payroll jobs in the HMA have grown by an average of 30,700 jobs, or 3.8 percent, annually, with all sectors contributing to these gains. Current nonfarm payrolls exceed the prerecession level of 775,800 jobs recorded in 2008.

From 2000 through the current date, the education and health services, leisure and hospitality, and other services sectors grew by 62, 69, and 70 percent, respectively (Figure 3). Seton Medical Center Hays, part of the Seton Healthcare Family, which is the fourth largest employer in the Austin HMA, is in the San Marcos submarket city of Kyle and opened in 2009 adding 2,300 jobs. The tourism industry also significantly affects the local economy, contributing to employment in the leisure and hospitality sector. During 2011, direct travel spending in the HMA increased nearly 8 percent, to $5.9 billion; during the 2000-through-2009 decade, direct travel spending increased by an average of nearly 4 percent annually to $5.2 billion (Dean Runyan Associates). A number of events hosted in the HMA draw tourists year round, including the South By Southwest music, film, and arts festival; Austin City Limits® Music Festival; and the Circuit of the Americas™ motor racing circuit. By contrast, the manufacturing and information sectors recorded losses of 37 and 4 percent, respectively, from 2000 to the current date. The information sector job losses were concentrated in the 2000-through-2003 period because of the recession in the early 2000s; during that time, employment in the sector decreased from 24,300 to 20,800 jobs, an average annual decrease of 1,175 jobs, or 5.1 percent. The losses in the manufacturing sector were similarly greatest from 2000 through 2003, although significant losses were also recorded from 2007 through 2009. Dell Inc., a major high-technology employer in the manufacturing sector, is the third largest employer in the HMA, with 13,500 employees; Dell cut jobs during both periods, from a peak of approximately 22,000 employees in 2000. In 2009, Samsung Group laid off 500 workers when it closed a semiconductor

Figure 3. Sector Growth in the Austin HMA,* Percentage Change, 2000 to Current



** Austin-Round Rock-San Marcos HMA.*
Note: Current is based on 12-month averages through February 2014.
Source: U.S. Bureau of Labor Statistics

manufacturing facility; these layoffs also contributed to job losses in the manufacturing sector during the period.

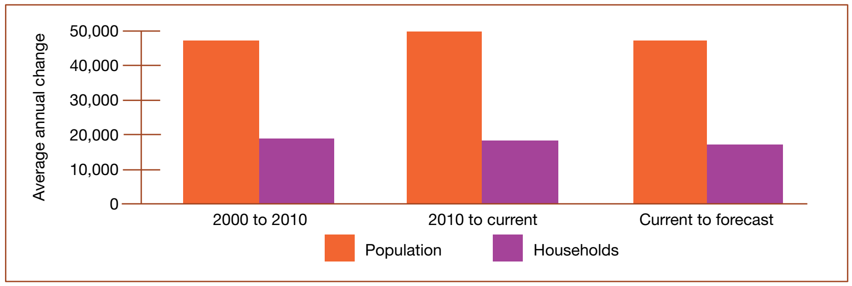
During the 3-year forecast period, nonfarm payrolls in the HMA are expected to increase by an average annual rate of 26,500 jobs, or 3.0 percent, as growth moderates after 3 years of recovery and strong expansion. Apple Inc., with plans to establish a 38-acre Americas Operations Center in the city of Austin, invested $27.1 million to complete the first two buildings of what will ultimately be a $300-million investment that will create 3,600 jobs during the next 10 years. The company has signed economic development and incentive agreements with the city of Austin and with Travis County. The new jobs will contribute to growth in the professional and business services and the information sectors. National Instruments Corporation, a producer of automated test equipment and virtual instrumentation software, began expanding its research and development capacity in the city of Austin; the $80 million expansion is expected to create 1,000 jobs in the professional and business services sector during the next 10 years. Oracle Corporation, a business hardware and software provider, plans to invest $5.4 million to expand its operations in the city of Austin by the end of 2017, expecting to create 200 sales and marketing jobs in the professional and business services within the next 3 years.

Population and Households

As of March 1, 2014, the population of the Austin HMA was estimated at 1.91 million, reflecting an average annual increase of 49,950, or 2.8 percent, from approximately 1.72 million on April 1, 2010. By comparison, from 2000 to 2010, the population increased by an average annual rate of 46,650, or 3.2 percent. Population growth fluctuated during the previous decade and was correlated with labor market conditions. From mid-2004 through mid-2008, in response to job gains, the population grew by an average of 55,950, or 3.8 percent, annually. From mid-2008 to 2010, population growth slowed to an average annual rate of 47,100 people, or 2.9 percent, because of job losses during 2009 and early 2010. As of April 1, 2010, the city of Austin had a population of 790,390, accounting for approximately 46 percent of the HMA's population compared with 53 percent in 2000 (Census Bureau). From July 2010 through July 2013, among metropolitan areas with populations greater than 100,000, the HMA was among the top 10 fastest growing metropolitan areas in the United States every year (Census Bureau). During the 3-year forecast period, the population of the HMA is expected to increase by 47,350, or 2.4 percent, annually, to 2.05 million by March 1, 2017 (Figure 4).

Net in-migration has been the primary component of population growth in the HMA since 2000 (Figure 5). From 2000 to 2010, net in-migration accounted for 63 percent of population growth, averaging 29,300 people

Figure 4. Population and Household Growth in the Austin HMA,* 2000 to Forecast

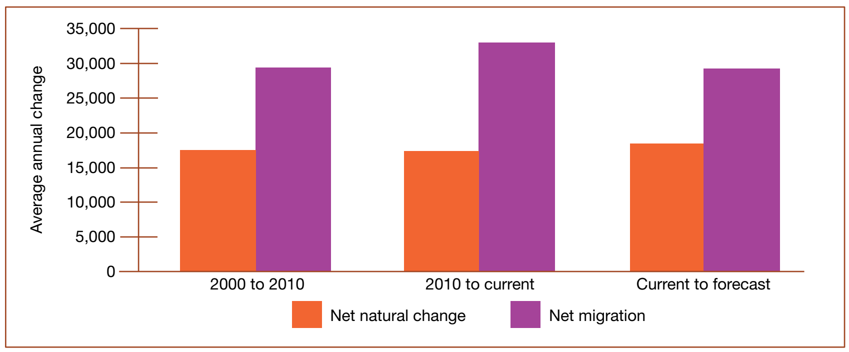


* Austin-Round Rock-San Marcos HMA.

Notes: The current date is March 1, 2014. The forecast date is March 1, 2017.

Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 5. Components of Population Change in the Austin HMA,* 2000 to Forecast



* Austin-Round Rock-San Marcos HMA.

Notes: The current date is March 1, 2014. The forecast date is March 1, 2017.

Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

annually. During the same period, net natural change (resident births minus resident deaths) averaged 17,350 people annually. Since 2010, net in-migration has averaged 32,800 people annually, and net natural change has averaged 17,150 people annually. During the forecast period, net in-migration to the HMA is expected to average 29,025 people a year.

The Austin submarket has accounted for 87 percent of the population growth in the HMA since 2000. From 2000 to 2010, the population in the submarket increased by an average of 40,100, or 3.1 percent, annually. Since 2010, the population growth rate has decreased slightly but remains strong, increasing by 44,400 people, or 2.8 percent, annually, because of strong labor market conditions following the downturn that ended in mid-2010. The population in the submarket is currently estimated at 1.70 million. Net in-migration has accounted for 65 percent of the population growth, or 28,650 people, a year since 2010; the remainder of the growth resulted from net natural change. Net in-migration is expected to decline during the 3-year forecast period to an average of 25,000 people a year as economic conditions begin to moderate. The population during the next 3 years is expected to increase by an average of 41,650, or 2.4 percent, annually in the Austin submarket.

The San Marcos submarket has accounted for 13 percent of the population growth in the HMA since 2000, although it grew at a slightly faster rate than the Austin submarket. From 2000 to 2010, the population in the submarket increased by an average of 6,550, or 4.2 percent, annually. Strong growth during the 2000s occurred because of lower home prices and lower rents than those found in the Austin submarket and because of increased enrollment at TSUSM. Since 2005, the average sales price for new and existing homes has been 24 percent less in the San Marcos submarket than in the Austin submarket. Average effective rents for one- and two-bedroom apartments units are 13 and 17 percent less in the San Marcos submarket. From 2000 through 2010, student enrollment at TSUSM increased from 22,400 to 30,800, an average annual increase of 840 students, or 3.2 percent. From 2010 through 2014, enrollment increased to 35,550, or 3.6 percent annually. Since 2010, the annual population growth rate has slowed, increasing 2.8 percent, or by 5,625 people, because of weaker job growth. The population of the submarket is currently estimated at 217,200. Net in-migration has accounted for 74 percent of population growth, or 4,150 people, a year since 2010; the remainder of the growth was because of net natural change. Net in-migration is expected to decrease slightly during the 3-year forecast period to an average of 4,025 people a year. During the next 3 years, the population is expected to increase by an average of 5,575, or 2.5 percent, annually in the San Marcos submarket.

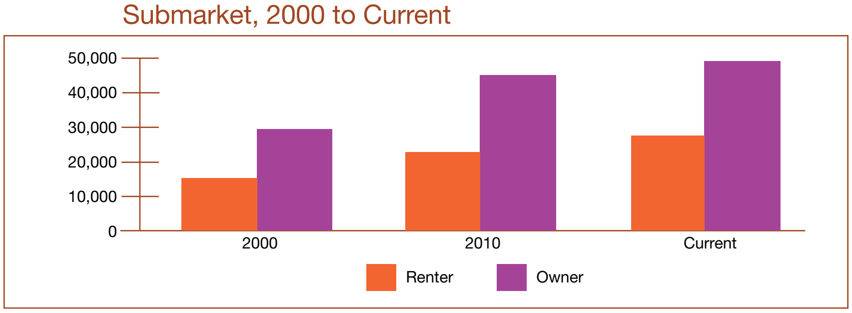
The number of households in the Austin HMA has increased at a slightly slower rate since 2010 than during the previous decade. Since 2010, the number of households has increased 2.6 percent, or by 17,800 households, annually compared with an average annual increase of 3.3 percent, or 17,850 households, during the past decade. The number of households in the HMA is currently estimated at 720,100. Figures 6 and 7 illustrate the number of households by tenure in each of the submarkets for 2000, 2010, and the current date.

During the forecast period, the number of households in the HMA is expected to increase by 17,600, or 2.4 percent, annually, to approximately 772,900 households by March 1, 2017. An estimated 89 percent of household growth is expected to occur in the Austin submarket. Tables DP-1 through DP-3, at the end of this report, provide additional demographic data for the HMA and its submarkets.

Figure 6. Number of Households by Tenure in the Austin Submarket, 2000 to Current

Note: The current date is March 1, 2014.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 7. Number of Households by Tenure in the San Marcos Submarket, 2000 to Current



Note: The current date is March 1, 2014.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Sales Market—Austin Submarket

The sales housing market in the Austin submarket is slightly tight because of strong job gains and population growth. The home sales vacancy rate is currently estimated at 1.3 percent, down from 2.3 percent in April 2010. During the 12 months ending February 2014, the number of new and existing single-family homes sold in the submarket increased 12 percent, to 41,600, compared with the number sold during the previous 12-month period. The current level of sales exceeds the average of 32,150 homes sold annually from 2008 through 2010, but it remains below the average of 49,600 homes sold annually from 2005 through 2007. Despite the recent increase in home sales volume, the homeownership rate in the submarket is currently estimated at 55.5 percent, down from 57.6 percent in April 2010.

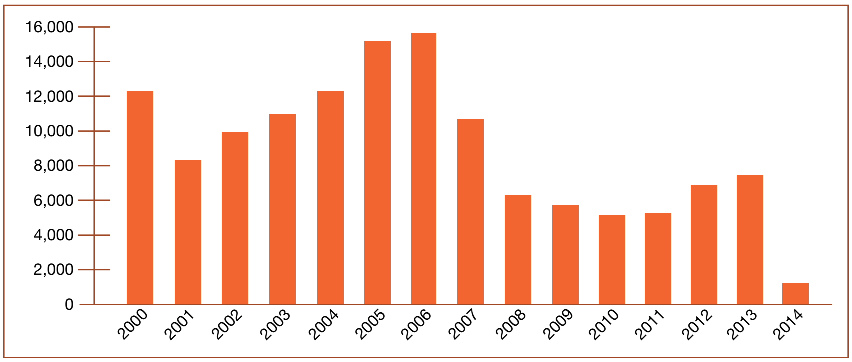
During the 12 months ending February 2014, the average sales price for new and existing homes in the submarket increased 7 percent, to $244,900, compared with prices during the previous 12 months (Metrostudy, A Hanley Wood Company), giving the submarket the highest sales price of any metropolitan area in Texas during that period. The current price level is the highest on record and well above the average of $220,600 that prevailed from 2008 through 2010. During 2013, the available inventory of new and existing homes in the submarket averaged a 2.75-month supply compared with the average 4.00-month supply recorded during the previous year; the current supply level is the lowest recorded since 2008 (Real Estate Center at Texas A&M University). In February 2014, approximately 2.1 percent of mortgage loans were 90 or more days delinquent, were in foreclosure, or transitioned into REO (Real Estate Owned) status, down from 2.6 percent in February 2013. This rate compares with 3.7 percent in Texas and 5.3 percent nationally during February 2014 and with 4.2 percent in Texas and 7.0 percent nationally during February 2013 (Black Knight Financial Services, Inc.). From 2008 through 2010, an average of 2.9 percent of mortgage loans were 90 or more days delinquent, were in foreclosure, or transitioned into REO status in the Austin submarket.

During the 12 months ending February 2014, the average sales price for new and existing condominiums and townhomes increased 9 percent, to an average of $274,100 (Metrostudy, A Hanley Wood Company). During the same period, the number of condominiums and townhomes sold increased 13 percent, to 4,200. Sales prices for new and existing condominiums in the Downtown Austin area are estimated to start at approximately $250,000 for a 625-square-foot unit, and the average sales price is estimated to be approximately $575,000.

Single-family homebuilding activity, as measured by the number of single-family homes permitted, increased in the Austin submarket during the 12 months ending February 2014 in response to increased sales (Figure 8). The number of single-family homes permitted increased nearly 8 percent, to 7,425 homes, compared with the 6,900 homes permitted during the previous 12-month period (preliminary data). The current level of permitting activity is above the average of 5,675 homes permitted annually from 2008 through 2010, but it remains well below the average of 13,750 homes permitted annually from 2005 through 2007. Sales prices for new, single-family homes in the submarket start at about $105,000, although the lowest prices are found primarily in the outlying areas. New developments include Teravista, in Round Rock, a 1,550-acre community with prices starting at $212,000; approximately 2,200 homes have been completed since 2001, and an additional 800 homes are expected to be built by the time construction is complete in 2016. Falcon Pointe, in Pflugerville, offers prices starting at $208,000; approximately 1,125 homes have been completed since 2002, and an additional 475 are expected to be built by the time construction is complete in 2016. No condominium developments are currently under construction or recently completed because apartments have dominated the market the past several years; however, condominium projects are in the planning phase, such as The Bremond Condo Town Home Development, a 70-unit proposed development, and Fifth and West Residences, a 162-unit proposed development.

During the next 3 years, demand is expected for 28,700 new homes in the submarket (Table 1). The 2,800 homes currently under construction and a portion of the estimated 18,000 other vacant units that likely will reenter the sales housing market will meet a portion of this demand. Demand is expected to remain relatively stable throughout the 3-year forecast period. An estimated 45 percent of the demand is expected to be for homes priced between $150,000 and $250,000 (Table 4).

Figure 8. Single-Family Homes Permitted in the Austin Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through February 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Austin Submarket During the Forecast Period

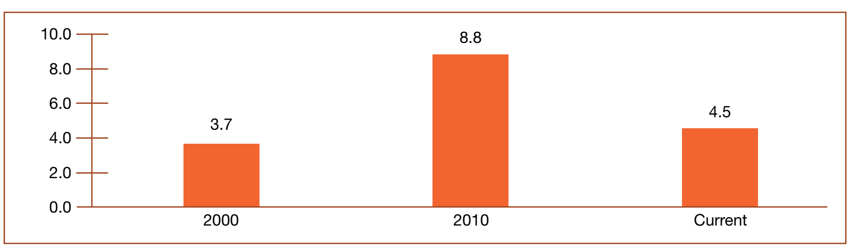
Price Range ($)		Units of Demand	Percent of Total
From	To		
105,000	149,999	3,150	11.0
150,000	199,999	7,175	25.0
200,000	249,999	5,750	20.0
250,000	299,999	4,300	15.0
300,000	399,999	4,300	15.0
400,000	549,999	3,450	12.0
550,000	and higher	570	2.0

Notes: The 2,800 homes currently under construction and a portion of the estimated 18,000 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is March 1, 2014, to March 1, 2017.
Source: Estimates by analyst

Rental Market—Austin Submarket

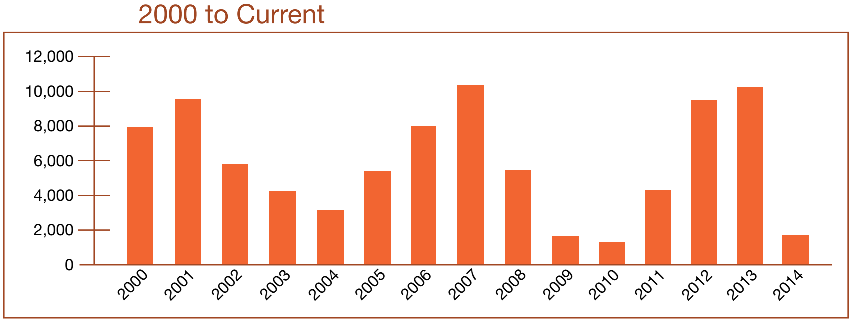
Rental housing market conditions in the Austin submarket are slightly tight because of sustained employment and population growth. The current overall rental vacancy rate is estimated at 4.5 percent, which is less than the 8.8-percent rate recorded in April 2010 (Figure 9). An estimated 25 percent of the current rental inventory consists of single-family homes, nearly unchanged since 2000. By comparison, apartments currently comprise an estimated 59 percent of the rental inventory, also relatively unchanged since 2000. The apartment market is balanced despite an increased vacancy rate, which is partially the result of a large number of new units that began coming onto the market in 2012. The apartment vacancy rate is currently 7.8 percent, up from 5.7 percent a year ago and compared with 10 percent in April 2010 (ALN Systems, Inc.). Effective apartment rents currently average $910, $1,150, and $1,310 for one-, two-, and three-bedroom units, respectively. The average effective rent for all apartment units increased 8 percent, to $1,050, compared with the rents recorded a year ago. Rent increases were broad based, with increases recorded throughout the submarket, in every apartment class group, and in every product age group. Despite the recent increase in vacancy rates, the average monthly concession per unit is currently approximately $5, down from approximately $25 a year ago. Rents for condominium units in downtown Austin start at approximately $1,000, with a median rent estimated at approximately $2,000 (local sources).

Figure 9. Rental Vacancy Rates in the Austin Submarket, 2000 to Current



Note: The current date is March 1, 2014.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 10. Multifamily Units Permitted in the Austin Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through February 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Multifamily construction activity, as measured by the number of units permitted and the analyst's estimates, is greater than the levels recorded from 2005 through 2007 in the Austin submarket. During the 12 months ending February 2014, approximately 9,425 multifamily units were permitted, a 3-percent decrease from the 9,750 units permitted during the previous 12 months (preliminary data and analyst's estimates). The current level of activity is well above the average of 6,850 units permitted annually from 2005 through 2007, a period of strong economic growth in the submarket (Figure 10). By contrast, an average of 2,775 multifamily units were permitted annually from 2008 through 2010. From 2005 through 2010, condominiums made up an estimated 16 percent of multifamily construction activity. Since 2010, condominium construction activity has fallen to an estimated 6 percent of all multifamily construction. Increased rental demand from 2010 through 2012, continued population growth, tighter lending standards in the sales market, and rapidly rising rents have contributed to much more construction activity during the past 2 years. Although new construction starts are distributed throughout the HMA, the greatest concentrations are in the central Austin, south Austin, and the far-north Austin/Round Rock areas, with an estimated 18, 12, and 25 percent of all units under construction, respectively (CB Richard Ellis and analyst's estimates). Developments currently under construction in the city of Austin include the 282-unit Lakeshore Apartments Phase II and the 826-unit Green Water Residential Tower Block 1, expected to be complete by mid-2015. Recently completed developments in the city of Austin include the 228-unit Domain Parkside Apartments, where rents start at $950, $1,050, and $1,380 for studio, one-bedroom, and two-bedroom units, respectively, and the 336-unit Tree at South Congress Apartments, where rents start at $1,050, $1,100, and $1,860 for studio, one-bedroom, and two-bedroom units, respectively. In Round Rock, the 304-unit Lone Oak Apartment development will offer one-, two-, and three-bedroom units, with rents stating at $895, $1,260, and $1,590, respectively when complete in mid-2014.

With more than 52,000 students and a current dorm capacity of approximately 7,300 that is fully occupied, most of UT Austin's remaining 45,000 students constitute nearly 6 percent of the private rental market, mostly concentrated in the area around the university near downtown Austin. The overall rental vacancy rate and apartment vacancy rate are estimated to be 1 to 2 percent (respectively) less than in the area around the campus than in the overall Austin submarket. Recently completed private-market student housing apartments include the 753-bed Callaway House, near the university, where lease agreements start at $850 per month, and the 150-bed Twenty Two 15, also close to campus, where lease agreements start at $825 per month.

During the 3-year forecast period, demand is estimated for 21,150 new market-rate rental units in the submarket. The 8,550 units currently under construction will meet a portion of this demand (Table 1). Demand is expected to remain relatively stable throughout the forecast period. Table 5 shows forecast demand by number of bedrooms and rent level.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Austin Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
600 to 799	320	775 to 974	5,325	975 to 1,174	2,375	1,250 to 1,449	190
800 to 999	380	975 to 1,174	2,600	1,175 to 1,374	2,025	1,450 to 1,649	440
1,000 to 1,199	250	1,175 to 1,374	1,775	1,375 to 1,574	1,025	1,650 to 1,849	320
1,200 to 1,399	190	1,375 to 1,574	1,075	1,575 to 1,774	540	1,850 to 2,049	150
1,400 to 1,599	90	1,575 to 1,774	710	1,775 to 1,974	340	2,050 to 2,249	40
1,600 or more	40	1,775 or more	360	1,975 or more	470	2,250 or more	130
Total	1,275	Total	11,850	Total	6,775	Total	1,275

Notes: Numbers may not add to totals because of rounding. The 8,550 units currently under construction will likely satisfy some of the estimated demand. The forecast period is March 1, 2014, to March 1, 2017.

Source: Estimates by analyst

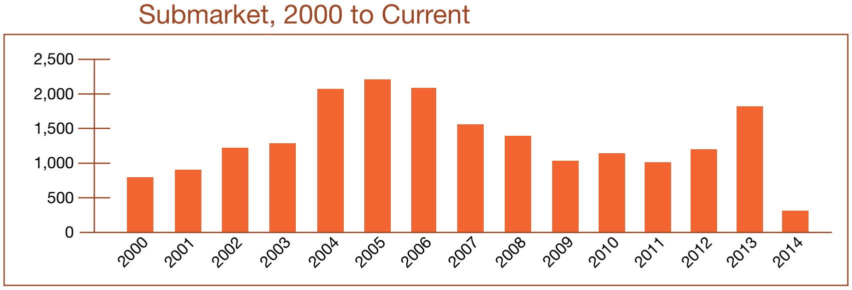
Sales Market—San Marcos Submarket

The sales housing market in the San Marcos submarket is balanced. The home sales vacancy rate is currently estimated at 1.8 percent, down from 1.9 percent in April 2010. During the 12 months ending February 2014, the number of new and existing single-family homes sold in the submarket increased 14 percent, to 4,500 homes, compared with the number sold during the previous year (Metrostudy, A Hanley Wood Company). The current sales level is above the average of 3,425 homes sold annually from 2008 through 2010, but it remains below the average of 5,250 homes sold annually from 2005 through 2007. The homeownership rate is currently estimated at 64.0 percent, down from 66.2 percent on April 1, 2010.

With recent increases in the number of homes sold, the average sales price for new and existing single-family homes in the submarket increased more than 2 percent, to $172,100, during 2013 compared with prices during the previous 12 months, following increases of more than 5 percent annually in 2011 and 2012 (Metrostudy, A Hanley Wood Company). The number of REO sales declined 11 percent during the same period and the percentage of home sales that are new homes remained unchanged at approximately 23 percent; both factors contributed to the increase in the average sales price. REO sales now comprise less than 6 percent of all home sales compared with more than 8 percent during the previous year (Metrostudy, A Hanley Wood Company). The current price level is above the average of $146,800 that prevailed from 2008 through 2010. During 2013, the available inventory of new and existing single-family homes in the submarket averaged a 5.8-month supply compared with the average 8.1-month supply recorded during the previous year (Real Estate Center at Texas A&M University). In February 2014, approximately 2.9 percent of mortgage loans were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 3.5 percent in February 2013 (Black Knight Financial Services, Inc.). From 2008 through 2010, an average of 3.6 percent of mortgage loans were 90 or more days delinquent, were in foreclosure, or transitioned into REO status in the San Marcos submarket.

Single-family homebuilding activity, as measured by the number of single-family homes permitted, increased in the San Marcos submarket during the 12 months ending February 2014 (Figure 11). The number of single-family homes permitted increased 50 percent, to 1,850 homes, compared with the 1,225 homes permitted during the previous 12-month period (preliminary data). The current level of activity is above the average of 1,200 homes permitted annually from 2008 through 2010 and only slightly below the average of 1,950 permitted annually from 2005 through 2007. Sales prices for new three-bedroom single-family homes in the submarket start at about $120,000, which is $15,000 more than the Austin submarket prices. New developments include The Gardens of El Camino Real, in the city of San Marcos, where more than 400 homes are complete and prices currently start at $137,300. An additional 1,600 homes are expected to begin construction at The Gardens of El Camino Real during the next 8 years. Shadow Creek, south of Buda, is another development under way that broke ground in 2006 and where prices currently start at $165,000; approximately 500 homes are complete and an additional 700 homes are expected to be built. The final completion dates are currently uncertain for both developments.

Figure 11. Single-Family Homes Permitted in the San Marcos Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through February 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 6. Estimated Demand for New Market-Rate Sales Housing in the San Marcos Submarket During the Forecast Period

Price Range ($)		Units of Demand	Percent of Total
From	To		
120,000	149,999	530	13.0
150,000	199,999	1,425	35.0
200,000	249,999	980	24.0
250,000	299,999	490	12.0
300,000	399,999	410	10.0
400,000	and higher	240	6.0

Notes: The 730 homes currently under construction and a portion of the estimated 3,300 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is March 1, 2014, to March 1, 2017.

Source: Estimates by analyst

During the next 3 years, demand is expected for 4,075 new homes in the submarket (Table 1). The 730 homes currently under construction and a portion of the estimated 3,300 other vacant units that will likely reenter the sales housing market will meet a portion of that demand. Demand is expected to remain relatively stable throughout the 3-year forecast period. More than one-half of the demand is expected to be for homes priced between $150,000 and $249,999 (Table 6).

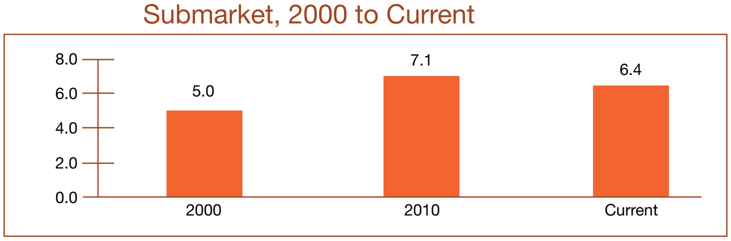
Rental Market—San Marcos Submarket

Rental housing market conditions in the San Marcos submarket are balanced. The current overall rental vacancy rate is estimated at 6.4 percent, down from 7.1 percent in April 2010 (Figure 12). An estimated 25 percent of the current rental inventory consists of single-family homes, up from 22 percent in 2000. By comparison, apartments currently comprise an estimated 47 percent of the rental inventory, up from 43 percent in 2000, because of more than 8,850 apartment unit completions since 2000. The apartment market is slightly soft. The apartment vacancy rate is currently 6.4 percent, up from 5.5 percent a year ago (ALN Systems, Inc.). Effective apartment rents currently average $790, $950, and $1,320 for one-, two-, and three-bedroom units, respectively. The average effective rent for all apartment units increased 3 percent, to $1,050, compared with the rents recorded a year ago. Despite softening market conditions, the average monthly concession per unit is approximately $10, unchanged from a year ago.

With a current on-campus housing capacity of approximately 6,000, the rental market in the submarket is heavily influenced by the 35,550 students at TSUSM, with more than 80 percent of students residing off campus, or nearly half of all renter households in the submarket. The increase in student enrollment from 22,400 in 2000 to 35,550 in 2014 has stimulated apartment construction in the submarket. An estimated 25 percent of the apartments in the submarket are private-market student housing apartments. Since 2000, 5,541 units in 23 private-market student housing apartment projects have been completed (ALN Systems, Inc.).

Multifamily construction activity, as measured by the number of units permitted and the analyst's estimates, has been at high levels since 2010 compared with those levels recorded from 2000 through 2009 (Figure 13).

Figure 12. Rental Vacancy Rates in the San Marcos Submarket, 2000 to Current



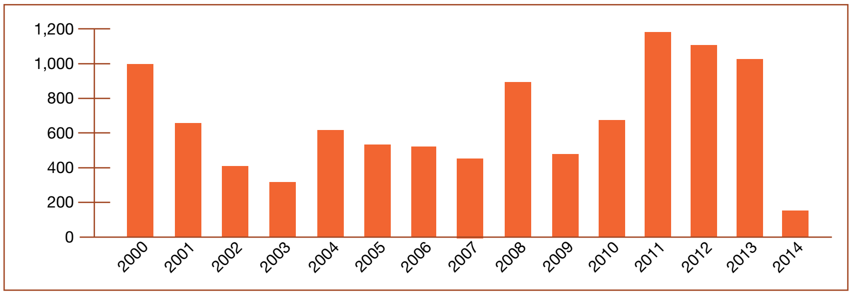
Note: The current date is March 1, 2014.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

During the 12 months ending February 2014, approximately 900 multifamily units were permitted in the San Marcos submarket, down slightly from the 950 units permitted during the previous 12 months (preliminary data and analyst's estimates). The current level of activity is well above the average of 680 units permitted annually from 2008 through 2010 and also above the average annual level of 560 units permitted from 2000 through 2007. Developments currently under construction include the 111-unit Comanche Student Housing, the 240-unit Courts at Riverbend Apartments, and the 109-unit The Cottages of San Marcos, all of which are student housing developments. Recently completed developments include the 257-unit Vistas at San Marcos off-campus student housing development, also in the city of San Marcos, where individual leases start at $540 per occupant.

During the 3-year forecast period, demand is estimated for 2,500 new market-rate rental units in the submarket. The 1,175 units currently under construction will meet a portion of that demand (Table 1). Demand is expected to remain relatively stable throughout the forecast period. Units under construction and vacant available units will meet demand for the next year and additional units will not be needed until the second year of the forecast period. Table 7 shows forecast demand by number of bedrooms and rent level.

Figure 13. Multifamily Units Permitted in the San Marcos Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through February 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 7. Estimated Demand for New Market-Rate Rental Housing in the San Marcos Submarket During the Forecast Period

One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
750 to 949	1,225	875 to 1,074	540	1,250 to 1,449	50
950 to 1,149	330	1,075 to 1,274	120	1,450 to 1,649	10
1,150 to 1,349	50	1,275 to 1,474	55	1,650 or more	10
1,350 or more	35	1,475 to 1,674	40		
		1,675 to 1,874	15		
		1,875 or more	10		
Total	1,650	Total	770	Total	75

Notes: Numbers may not add to totals because of rounding. The 1,175 units currently under construction will likely satisfy some of the estimated demand. The forecast period is March 1, 2014, to March 1, 2017.
Source: Estimates by analyst

Data Profiles

Table DP-1. Austin HMA* Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total resident employment	714,297	856,551	941,900	1.8	3.0
Unemployment rate	3.0%	7.1%	5.1%		
Nonfarm payroll jobs	672,700	770,300	870,000	1.4	3.9
Total population	1,249,763	1,716,289	1,912,000	3.2	2.8
Total households	471,855	650,459	720,100	3.3	2.6
Owner households	274,712	380,448	406,000	3.3	1.7
Percent owner	58.2%	58.5%	56.4%		
Renter households	197,143	270,011	314,100	3.2	3.9
Percent renter	41.8%	41.5%	43.6%		
Total housing units	496,004	706,505	762,100	3.6	2.0
Owner vacancy rate	1.2%	2.3%	1.3%		
Rental vacancy rate	3.8%	8.6%	4.7%		
Median Family Income	$55,400	$73,300	$75,900	2.8	1.2

** Austin-Round Rock-San Marcos HMA.*

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through February 2014. Median Family Incomes are for 1999, 2009, and 2012. The current date is March 1, 2014.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-2. Austin Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	1,119,980	1,521,116	1,695,000	3.1	2.8
Total households	427,629	582,913	643,900	3.1	2.6
Owner households	245,513	335,715	357,300	3.2	1.6
Percent owner	57.4%	57.6%	55.5%		
Renter households	182,116	247,198	286,600	3.1	3.8
Percent renter	42.6%	42.4%	44.5%		
Total housing units	448,460	633,329	679,900	3.5	1.8
Owner vacancy rate	1.2%	2.3%	1.3%		
Rental vacancy rate	3.7%	8.8%	4.5%		

Notes: Numbers may not add to totals because of rounding. The current date is March 1, 2014.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-3. San Marcos Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	129,783	195,173	217,200	4.2	2.8
Total households	44,226	67,546	76,150	4.3	3.1
Owner households	29,199	44,733	48,700	4.4	2.2
Percent owner	66.0%	66.2%	64.0%		
Renter households	15,027	22,813	27,450	4.3	4.8
Percent renter	34.0%	33.8%	36.0%		
Total housing units	47,544	73,176	82,200	4.4	3.0
Owner vacancy rate	1.4%	1.9%	1.8%		
Rental vacancy rate	5.0%	7.1%	6.4%		

Notes: Numbers may not add to totals because of rounding. The current date is March 1, 2014.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census
2010: 4/1/2010—U.S. Decennial Census
Current date: 3/1/2014—Analyst's estimates
Forecast period: 3/1/2014–3/1/2017—Analyst's estimates

The metropolitan statistical area definition in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

Other Vacant Units: In the U.S. Department of Housing and Urban Development's (HUD's) analysis, other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

For additional data pertaining to the housing market for this HMA, go to http://www.huduser.org/publications/pdf/CMARtables_Austin-Round_Rock-San_MarcosTX_14.pdf.

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This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to www.huduser.org/portal/ushmc/chma_archive.html.