



# Austin Apartment Market Update

Edited by Kathryn Koepke

\$399/year

2<sup>nd</sup> Quarter 2007

## Change on the Horizon?

Despite Austin's robust first quarter postings, multifamily demand slowed slightly during the second quarter of 2007. Overall absorption totaled 253 units, down from 605 units in the first quarter with all classes, except for the Class A market, posting softer second quarter figures. Keeping pace with decelerating absorption figures, occupancy levels experienced decreases as well. Overall occupancy fell 0.32 points over the quarter to 92.98%, which is still above last year's level of 92.44%. Occupancy patterns were mixed this quarter, where the Class B and D markets saw gains, Class A occupancy decreased 0.56 points to 92.57%, while Class C occupancy lost 0.91 points over the quarter to 91.67%. Occupancy was highest once again in the Class B market at 94.08%, which enjoyed a 0.15-point quarterly increase. The Class D market posted a solid 1.13-point gain over the quarter and is currently at 93.70%, its highest figure on record for the second straight quarter. Class C occupancy lost 0.91 points over the quarter to 91.67%. However, the cyclical movement in both occupancy and absorption can also be attributed to changes in the University of Texas student population, where we often see increasing figures during the first and third quarters, and decreasing figures as summer break approaches late in the second quarter.

In contrast to lackluster absorption and occupancy levels, rental rates posted gains over the second quarter. Overall rents increased \$0.008 per square foot (psf) to \$0.958 psf. All Classes, except Class A, reported quarterly increases in rental rates, with the Class C and D markets enjoying the largest increases. Average rents in the Class A market fell slightly to \$1.050 psf, whereas Class B rents increased \$0.011 psf to \$0.903, Class C rents gained \$0.016 psf ending the quarter at \$0.908, and Class D rents are up \$0.005 psf to \$0.786.

In line with rising rental rates, occupancy levels will likely continue to hold steady. With the recent subprime mortgage fall-out, apartment renters are more likely to stay put and renew their leases until the air is clear in the mortgage market. Many first-time homebuyers are very cautious and apprehensive to enter the real estate market, especially with the rise in property values, the possibility of higher interest rates, and the risk of foreclosure. Aiding in the skepticism is the tightening of lending standards which significantly reduces the opportunity of homeownership for households with weak credit scores and keeps households in the rental market. With this, the Austin multifamily rental market is poised to benefit from stabilized occupancy and rental rates, if not slightly increasing, as we move into the second half of 2007.

By: [Matthew Kubecka](#)

Austin Apartment Market at a Glance

|            | Class A | Class B | Class C | Class D | Overall | Qtr | Yr |
|------------|---------|---------|---------|---------|---------|-----|----|
| Occupancy  | 92.57%  | 94.08%  | 91.67%  | 93.70%  | 92.98%  | ▼   | ▲  |
| Rent/Unit  | \$984   | \$699   | \$657   | \$605   | \$799   | ▲   | ▲  |
| Rent/SF    | \$1.050 | \$0.903 | \$0.908 | \$0.786 | \$0.958 | ▲   | ▲  |
| Absorption | 387     | 71      | -248    | 43      | 253     | ▼   | ▲  |

### In This Issue

Occupancy & Rent Trends .....2  
*Current and Historical Trends*

Absorption & Inventory .....3  
*Absorption, Current Market Inventory*

Economic Fundamentals .....4  
*Job Growth, Key Interest Rates*

Austin Market Map .....5  
*Submarket Boundaries*

Methodology .....6  
*Research and Reporting Definitions*

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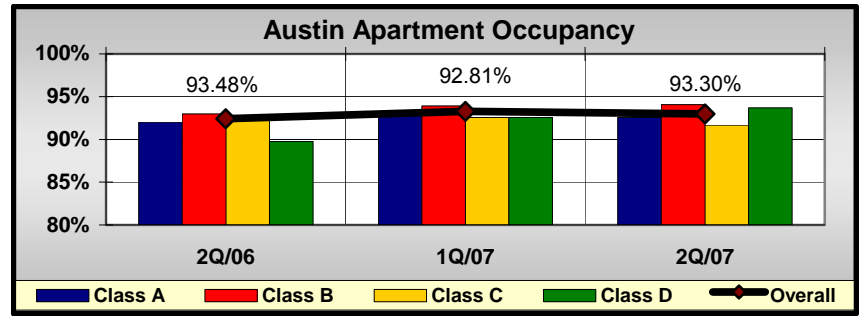
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## Metro Occupancy Overview

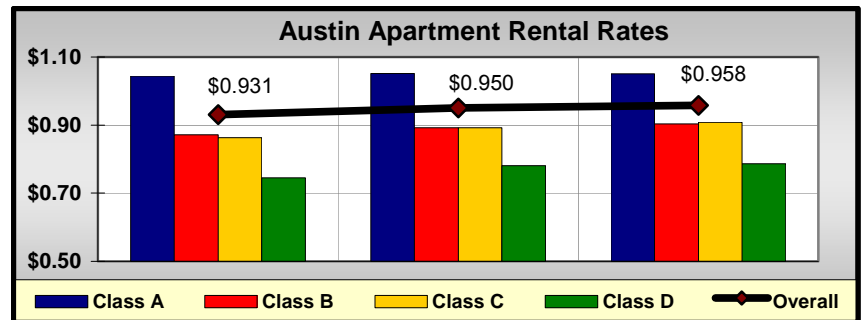
Overall occupancy decreased 0.32 points over the first quarter to 92.98%, aided partially by mixed quarterly results across the classes. Despite the fall, overall occupancy remains 0.54 points above last year's level. **Class A** occupancy decreased 0.56 points over the first quarter to 92.57%, which represents a 0.54-point gain over the last twelve months. Occupancy in the **Class B** market posted a quarterly increase of 0.15 points to 94.08%, representing a 1.07-point increase over the year. **Class C** occupancy fell 0.91 points over the quarter and is down 0.87 points over the year to 91.67%. At 93.70%, the **Class D** market registered a 1.13-point quarterly gain and a healthy 3.94-point annual gain.



| Quarter | Class A | Class B | Class C | Class D | Overall |
|---------|---------|---------|---------|---------|---------|
| 2Q/06   | 92.03%  | 93.01%  | 92.54%  | 89.76%  | 92.44%  |
| 1Q/07   | 93.13%  | 93.93%  | 92.58%  | 92.57%  | 93.30%  |
| 2Q/07   | 92.57%  | 94.08%  | 91.67%  | 93.70%  | 92.98%  |

## Metro Rent Overview

Overall rental rates gained \$0.008 over the quarter to \$0.958 per square foot (psf), the highest level since the first quarter of 2003. Overall rents have increased \$0.027 psf, or 2.90%, over the last year. **Class A** rents decreased slightly \$0.001 over the quarter to \$1.050 psf, but have gained \$0.006 psf over the past year. **Class B** rents posted a quarterly gain of \$0.011, which brought rents up to \$0.903 psf. Class B rents are now \$0.031 psf higher than they were one year ago. Rents in the **Class C** market, at \$0.908 psf, reported a quarterly increase of \$0.016 psf and an annual increase of \$0.045 psf. **Class D** rents gained \$0.005 psf over the quarter, reaching \$0.786 psf. Class D rents are up \$0.041 psf over the last twelve months.



| Quarter | Class A | Class B | Class C | Class D | Overall |
|---------|---------|---------|---------|---------|---------|
| 2Q/06   | \$1.044 | \$0.872 | \$0.863 | \$0.745 | \$0.931 |
| 1Q/07   | \$1.051 | \$0.892 | \$0.892 | \$0.781 | \$0.950 |
| 2Q/07   | \$1.050 | \$0.903 | \$0.908 | \$0.786 | \$0.958 |

## Submarket Performance

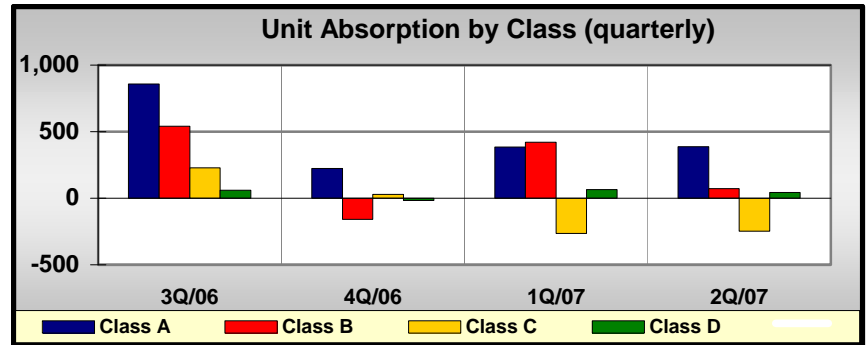
Of all the submarkets in the Greater Austin market, the **UT Campus** reported the highest occupancy at 98.07%, followed by **Round Rock** at 96.25%. The lowest average occupancy levels were found in the **Cedar Park/Leander** and **Georgetown** submarkets at 88.13% and 88.40%, respectively. The **Downtown** and **West** submarkets reported the highest average rental rates, at \$1.462 and \$1.196 psf, respectively. The lowest rents were found in the **Lockhart** submarket at \$0.619 psf.

Of the sectors with more than one complex, the **UT Campus** submarket recorded the highest Class A occupancy at 97.00%, while the **Cedar Park/Leander** submarket posted the lowest occupancy at 83.72%. Class B occupancy was highest in the **Downtown** and **Southwest** submarkets at 98.72% and 98.27, respectively, while the lowest occupancy was found in the **Bastrop** submarket at 85.00%. The **Downtown** and **UT Campus** submarkets both posted Class C occupancies at 100.00%, while the **East** submarket recorded the lowest Class C occupancy at 79.88%. Of the seven submarkets with Class D units, the highest occupancy was found in the **East** submarket at 96.94%, while the lowest was found in the **South** submarket at 80.74%.

The highest Class A rents were found in the **Downtown** submarket at \$1.930 psf, followed by the **UT Campus** at \$1.259 psf, while the lowest were found in the **Cedar Park/Leander** submarket at \$0.929 psf, followed by **Wells Branch** at \$0.947 psf. The **West** submarket reported the highest Class B rents, at \$1.160 psf, while the **Lockhart** submarket had the lowest at \$0.635 psf. Class C rents were highest in the **Downtown** submarket, at \$1.187 psf, and lowest in the **Lockhart** submarket at \$0.603 psf. The **Downtown** submarket once again reported the highest Class D rents at \$1.088 psf, while the lowest rents were found in the **Northeast** submarket at \$0.705 psf, down 0.009 points from last month.

## Metro Absorption Overview

Overall demand eased in the second quarter of 2007, as 253 units were absorbed, compared to the 605 units absorbed over the first quarter. Positive quarterly absorption was recorded in the Class A, B, and D markets once again. Overall annual absorption now stands at 2,624 units. Quarterly absorption in the **Class A** market reported the strongest figure at 387 units, while absorption over the past year is at 1,852 units, the strongest annual figure of all classes. **Class B** absorption dropped to 71 units for the quarter, while absorption over the past twelve months totals 875 units. **Class C** was the lone class to post negative quarterly absorption, as -248 units were absorbed. The negative figure brings annual Class C absorption down to -253 units. The **Class D** market absorbed 43 units over the quarter, bringing annual absorption up to 150 units.



| 12-Month Ending | Class A      | Class B    | Class C     | Class D    | Overall      |
|-----------------|--------------|------------|-------------|------------|--------------|
| 2Q/05           | 1,618        | 1,547      | 714         | 14         | 3,893        |
| 2Q/06           | 846          | 1,000      | 512         | 300        | 2,658        |
| <b>2Q/07</b>    | <b>1,852</b> | <b>875</b> | <b>-253</b> | <b>150</b> | <b>2,624</b> |

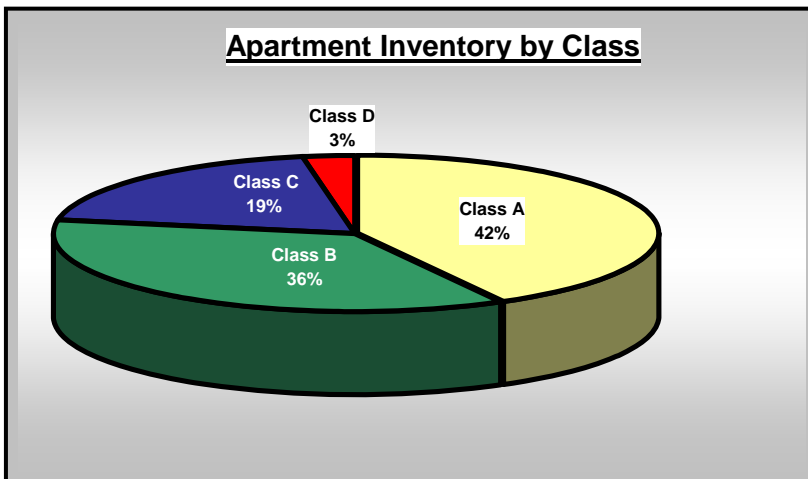
## Submarket Performance

Of the 22 Austin submarkets, the **Northwest** submarket reported the highest absorption over the quarter, at 146 units, followed by the **Arboretum** submarket, which posted absorption of 109 units. The weakest demand was found in the **Southeast** submarket, which absorbed -117 units.

Class A absorption was strongest in the **Northwest** and **Southeast** submarkets, where 139 and 82 units were absorbed. Class A absorption was softest in the **Southwest** submarket where -82 units were absorbed. The **Southeast** submarket led Class B absorption, as 66 units were absorbed. Class B absorption was weakest in the **Northeast** submarket, which absorbed -52 units. Class C absorption was fairly soft across the board, with the strongest performing sector, **East**, absorbing 31 units. The lowest Class C figures were found in the **Southeast** and **North** submarkets, where -270 and -37 units were absorbed. The strongest Class D absorption was found in the **East** and **North** submarkets, both absorbing 14 units, while the **South** submarket held constant with 0 units being absorbed for the quarter.

## Apartment Inventory

There are a total of 658 operating or under-construction projects (greater than 25 units) in the Austin metro market with a total of 141,761 units. Approximately 42% of the total units is Class A, 36% is Class B, 19% is Class C, and 3% is Class D. The chart and table below display Greater Austin apartment market inventory by class.



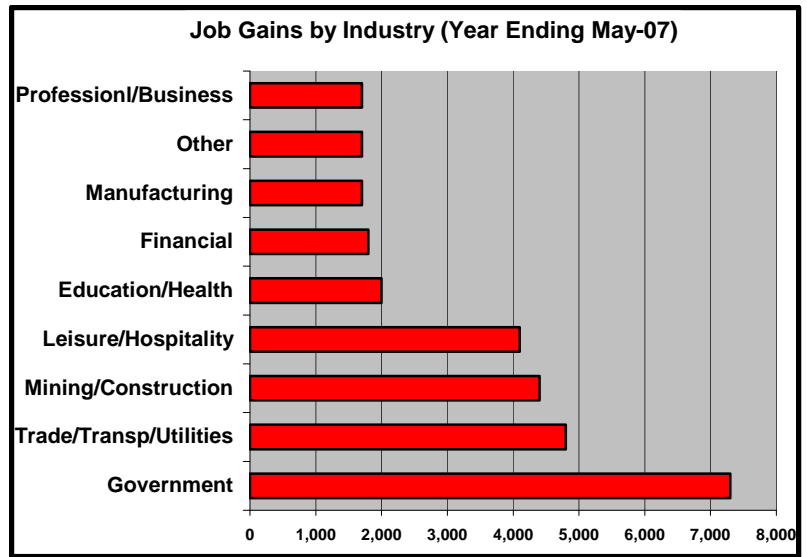
| Operating      | Projects   | Units          |
|----------------|------------|----------------|
| Class A        | 178        | 55,645         |
| Class B        | 252        | 49,941         |
| Class C        | 175        | 27,445         |
| Class D        | 34         | 3,956          |
| <b>TOTAL**</b> | <b>639</b> | <b>135,987</b> |

| Under Cons.    | Projects  | Units        |
|----------------|-----------|--------------|
| Class A        | 14        | 3,992        |
| Class B *      | 5         | 782          |
| <b>TOTAL**</b> | <b>19</b> | <b>4,774</b> |

\* Class B also includes Affordable Housing developments  
 \*\* There are additional Unclassified (Class U) projects

## Job Growth

The civilian labor force unemployment rate in the five-county Austin-Round Rock MSA decreased to 3.2%, while the total number of nonagricultural wage and salary jobs also saw an increase to 747,400 in May 2007, according to the **Texas Workforce Commission**. This month's total is 29,400 jobs more than at this time last year. Of the nonagricultural employers, the Government sector gained 7,300 jobs over the previous 12 months; Trade, Transportation, & Utilities gained 4,800 jobs; Mining & Construction added 4,400 jobs; Leisure & Hospitality employment increased by 4,100 jobs; Education & Health Services added 2,000 jobs; Financial Activities gained 1,800 jobs; Manufacturing, Professional & Business Services, and Other Services each added 1,700 jobs; The only industry to lose jobs of the year was the Information sector, which has lost 100 jobs.

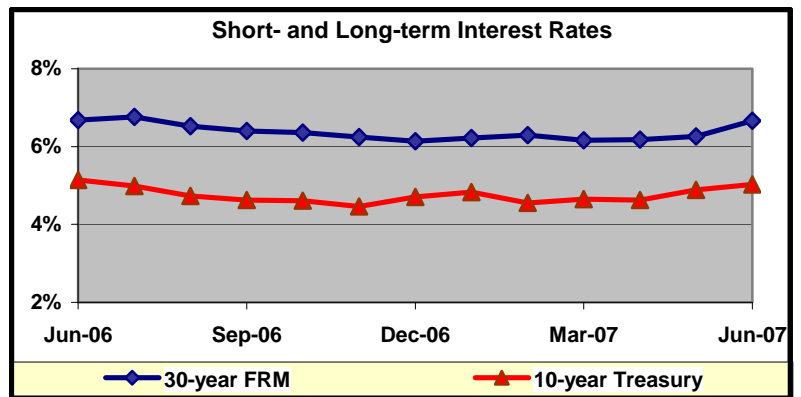


## Interest Rates

The yield on the **10-year Treasury** note rose to 5.03% in June 2007, down 0.11 points from its 5.14% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.66% in June 2007. One year ago, the 30-year FRM was at 6.68%. The average for the **15-year FRM** in June was 6.34%, up 0.03 points from a year ago.

The **Prime Rate** in June was reported in the Wall Street Journal at 8.25%, up 0.25 points from a year ago.



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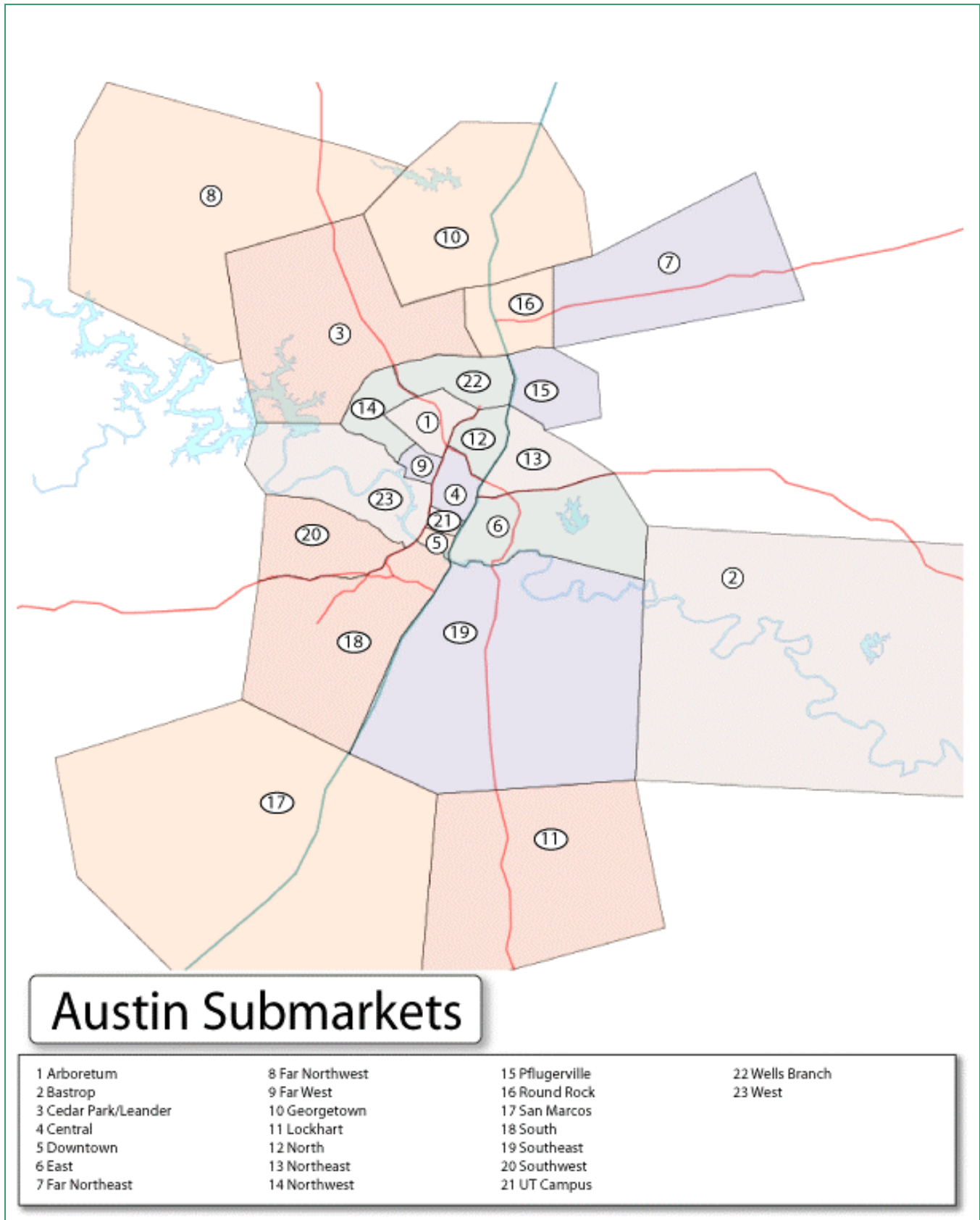
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## Data Collection

Our in-house research team continuously updates over 100 fields of data for nearly 6,000 apartment complexes in our database. We update at least 90% of properties on a monthly basis to generate accurate market trend reports on rents, concessions, occupancy, etc. Our monthly surveys also update other property-specific data such as fees, policies, management, and owner information. On a less-frequent basis we update amenities, schools, and other data fields that change rarely. We perform current and historical data audit after we close each month's survey to identify any data inconsistencies or incorrectly keyed values.

## Research

We monitor various news media, press releases, marketing materials, web-sites, CAD records, permit issuance, and other sources to capture new construction, planned projects, financing, and sales. Our researchers conduct phone interviews with relevant developers, brokers, or lenders to gather information on new construction and sales. We add properties to our database on a regular basis to ensure we offer the most up-to-date and complete apartment database.

## Market Coverage

Our online apartment database covers all four major Texas metro markets – Austin, Dallas-Fort Worth, Houston, and San Antonio. The **Austin** market includes Caldwell, Hays, Travis, Bastrop, and Williamson counties. The **DFW** market covers Dallas, Tarrant, Wise, Denton, Collin, Hunt, Rockwall, Kaufman, Ellis, Johnson, Parker, and Erath counties. The **Houston** market includes Harris, Montgomery, Fort Bend, Brazoria, and Galveston counties (Brazos county is also included in the database but excluded from the trend reports). **San Antonio** includes Bexar, Comal, Guadalupe, Kendall, and Kerr counties.

We subdivide each market into submarkets (see map on previous page): Austin has 23 submarkets, DFW has 50 submarkets, Houston has 53 submarkets, and San Antonio has 26 submarkets. The submarkets are based on neighborhood-style areas with defining boundaries such as major roads and other factors that establish a neighborhood. This approach allows the user to view distinct areas of properties that have evolved into their own sections of town and can be identified together.

## Glossary

**Absorption** = Change of Occupied Units, including new construction. Absorption is a proxy for demand.

**Occupancy** = Percentage of physically occupied units on property.

**Pre-leased** = Net of percentage of units that have been pre-leased but not yet occupied and units on notice to be vacated.

**Rents** = Market rents (excluding concessions).

**Class** = Properties are classified as A, B, C, D, or Unclassified (U) based on various factors, such as age, location, amenities, curb appeal, overall condition, rents, etc. Class A properties are generally less than 10 years old, have excellent amenities, prime location, and great appeal, thus they tend to have the highest rents. Older properties built in early 1900s that were converted from warehouses or office buildings, or older apartment projects that have had major renovations may also be classified as A. Class B properties are generally 10 to 20 years old, have good locations, good level of amenities, are somewhat less appealing than Class A projects, and are in overall good condition. New affordable projects are also classified as B. Class C projects are usually 20 to 30 years old, have few amenities, are in poor locations, and are not well maintained. Class D projects are generally more than 30 years old, in poor condition, have no or limited amenities, are in poor locations, and have poor curb appeal. They tend to have the lowest rents per unit (although per-square-foot rents may be high since the units are usually small). Unclassified or Class U projects are senior housing, student housing, or other properties that have unusual lease terms, include meals with the rent, or other services, so their rents and occupancies are not representative of the actual market. We exclude these from our statistical reports as they skew the averages for the other classes.

## Reporting

Occupancy, Rent, and Absorption trend data is based on Operating, Under-construction, and Under-renovation projects, Classes A, B, C, and D (excluding Class U).