



Austin Apartment Market Update

Edited by Kathryn Koepke

\$399/year

3rd Quarter 2007

Austin Affordability

With the middle-class employment and economy growing, it is not surprising to see another surge in construction of income-restricted tax-credit developments. Over the last twelve months, 29,500 jobs have been added to the local Austin area economy, according to the Texas Workforce Commission. Of the ten different employment sectors, the Government sector has experienced the largest increase in employment, gaining 6,600 jobs over the last year. Aside from the increase in Government employment, the majority of the job gains in the area over the previous year can be attributed to the working middle-class sectors, as Trade, Transportation, & Utilities added 4,900 jobs, Leisure & Hospitality employment is up 4,400 jobs, while Mining & Construction gained 3,500 jobs.

Construction of tax-credit properties was high during the early part of the decade. From 2001 through 2004, 37 projects containing 6,895 units were delivered to market. Activity tapered off in 2005 and 2006, as only three developments were completed each year. So far in 2007, one project, Mariposa at River Bend, a 208-unit seniors tax-credit property located in Georgetown, has completed construction. However, another six tax-credit developments containing 1,042 units are currently under-construction. Construction is concentrated in the suburban outskirts of Austin, including Georgetown, south Austin, and northeast Austin, which is where multiple new large-scale retail developments and single-family developments are springing up. In addition to the projects under-construction, there are five income-restricted housing projects with a total of 944 units proposed for development. Similar to the projects already underway, these are also located in Austin's suburban outskirts.

Upon completion, the new affordable properties will likely provide high-quality, respectable housing for many of the retail and construction workers in the respective areas. Housing in Austin is notoriously expensive when compared to the rest of the state, and the new tax-credit properties are often times the nicest, most affordable housing options available to middle-income workers. Rental rates at the 79 operating area tax-credit properties average \$0.766 per square foot (psf), which is significantly lower than the overall market rental rate of \$0.969 psf. Demand for low-income housing in Austin is high, as occupancy at the tax-credit developments has been at or above 90% over the last two years. Currently, occupancy at the area tax-credit properties averages 90.76%. As middle-class employment in the area grows, we expect construction of income-restricted projects to remain elevated over the next couple of years. And though there is often debate about the system, the tax-credit program does provide valuable housing opportunities for those in need, and is clearly a program that is in high demand.

By: [Leslie Countryman](#)

Austin Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	93.81%	93.85%	92.27%	89.91%	93.91%	▲	▲
Rent/Unit	\$995	\$707	\$663	\$608	\$808	▲	▲
Rent/SF	\$1.063	\$0.913	\$0.916	\$0.790	\$0.969	▲	▲
Absorption	779	147	156	-139	943	▲	▲

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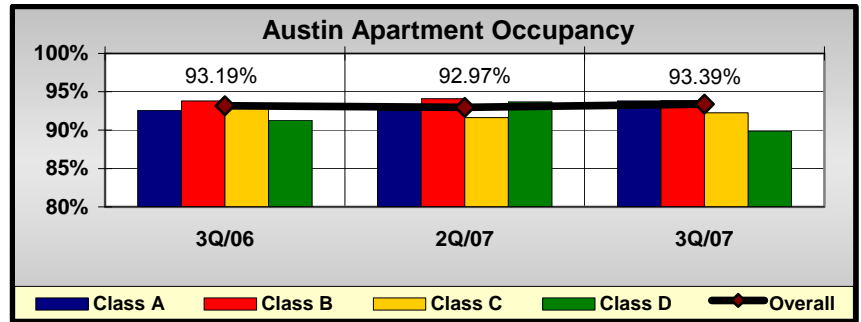
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Metro Occupancy Overview

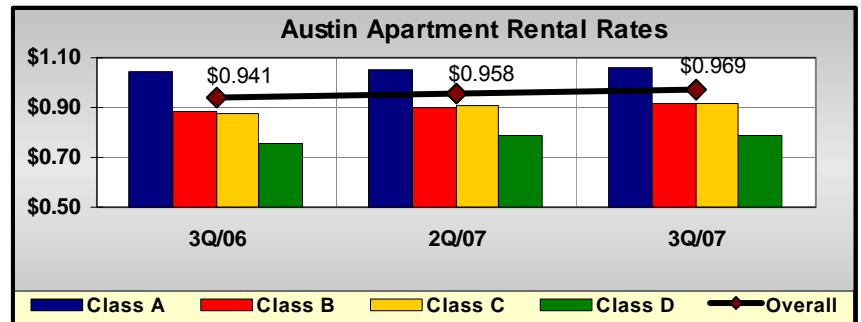
After falling during the second quarter, overall occupancy rebounded in the third quarter, increasing 0.42 points to 93.39%. Overall occupancy is 0.20 points higher than it was one year ago. **Class A** occupancy surged ahead a full 1.24 points over the quarter to 93.81%, which represents a 1.22-point annual gain. **Class B** occupancy fell 0.23 points over the third quarter to 93.85%. Despite the fall, Class B occupancy remains 0.04 points above last year's level. Occupancy in the **Class C** market registered a 0.62-point quarterly gain to 92.27%, but is down 1.20 points over the year. **Class D** occupancy fell 3.79 points over the quarter and is down 1.41 points over the year to 89.91%, which is the weakest occupancy figure of all classes.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/06	92.59%	93.81%	93.47%	91.32%	93.19%
2Q/07	92.57%	94.08%	91.65%	93.70%	92.97%
3Q/07	93.81%	93.85%	92.27%	89.91%	93.39%

Metro Rent Overview

Overall rental rates increased \$0.011 per square foot (psf) over the quarter to \$0.969 psf. All classes posted quarterly rental rate gains, with the Class A and B markets enjoying the largest rental rate increases. Compared to this time last year, overall rental rates are \$0.028 psf, or 3%, higher. **Class A** rents jumped \$0.013 over the quarter to \$1.063 psf, their highest level since the third quarter of 2002. Class A rents are up \$0.016 psf over the last twelve months. Rents in the **Class B** market, at \$0.913 psf, reported a quarterly increase of \$0.010 psf and an annual increase of \$0.029 psf. **Class C** rents increased \$0.008 psf over the quarter to \$0.916 psf, which is \$0.041 psf higher than they were one year ago. The **Class D** market posted a \$0.004-psf quarterly gain in rents to \$0.790 psf. Over the last year, Class D rents have increased \$0.033 psf.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/06	\$1.047	\$0.884	\$0.875	\$0.757	\$0.941
2Q/07	\$1.050	\$0.903	\$0.908	\$0.786	\$0.958
3Q/07	\$1.063	\$0.913	\$0.916	\$0.790	\$0.969

Submarket Performance

Of the 22 Austin submarkets, the **UT Campus** reported the highest occupancy at 98.81%, followed by **Bastrop** at 97.87%. The lowest average occupancy levels were found in the **East** and **Far Northeast** submarkets at 86.14% and 90.00%, respectively. The **Downtown** and **West** submarkets reported the highest average rental rates, at \$1.480 and \$1.208 psf, respectively. The lowest rents were found in the **Lockhart** submarket at \$0.619 psf.

Of the submarkets with more than one property, **San Marcos** reported the highest Class A occupancy at 97.31%, while the lowest Class A occupancy was reported in the **East** submarket at 36.00%. In the Class B market, **UT Campus** reported the highest occupancy at 98.48%, while the **Southwest** submarket posted the lowest occupancy at 79.62%. In the Class C market, **UT Campus**, which was near full, recorded the highest occupancy, while the **East** submarket reported the lowest occupancy at 82.35%. In the Class D market, the **East** submarket reported the highest occupancy at 94.54%, while the **South** submarket posted the lowest occupancy 85.18%.

Of the submarkets with more than one property, **Downtown** reported the highest Class A rents at \$1.914 psf, while the lowest Class A rents were found in **Georgetown** at \$0.888 psf. In the Class B market, rental rates were the highest in the **UT Campus** submarket at \$1.164 psf, while the lowest rents were found in **Pflugerville** at \$0.779 psf. Class C rents were the highest in **Downtown** at \$1.187 psf and the lowest in the **Central** submarket at \$0.883 psf. In the Class D market, the

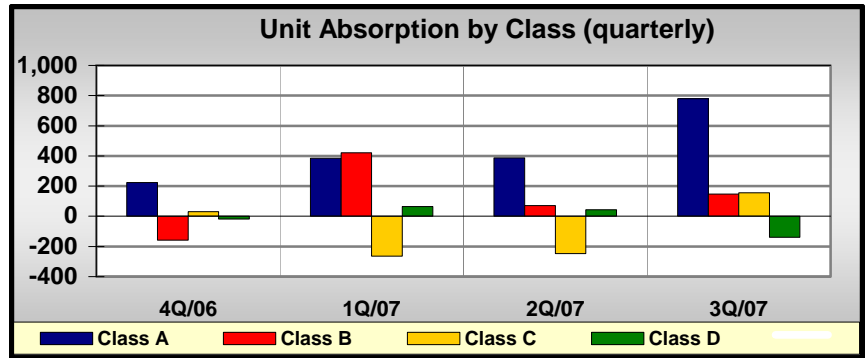
Central submarket reported the highest rents at \$0.883 psf, while the lowest rents were found in the **Northeast** submarket at \$0.717 psf.



Absorption Trends & Inventory

Metro Absorption Overview

Overall demand picked up the pace over the third quarter, as 943 units were absorbed. The vast majority of the absorption was attributed to the Class A market, while the Class B and C markets also posted positive quarterly figures. Overall annual absorption now stands at 1,879 units. The **Class A** market absorbed 779 units during the quarter, the strongest of all classes, while annual Class A absorption, at 1,774 units, is also the strongest of all classes. **Class B** absorbed 147 units over the quarter, bringing annual absorption up to 480 units. After two consecutive quarters in the red, **Class C** absorption moved into the black, with 156 units absorbed over the quarter. Despite the quarterly gain, annual Class C absorption remains in the red, at -326 units. **Class D** was the lone class to post negative quarterly absorption, as -139 units were absorbed. The negative figure brings annual Class D absorption down to -49 units.



12-Month Ending	Class A	Class B	Class C	Class D	Overall
2Q/05	1,303	1,461	875	95	3,734
2Q/06	759	454	217	265	1,695
2Q/07	1,774	480	-326	-49	1,879

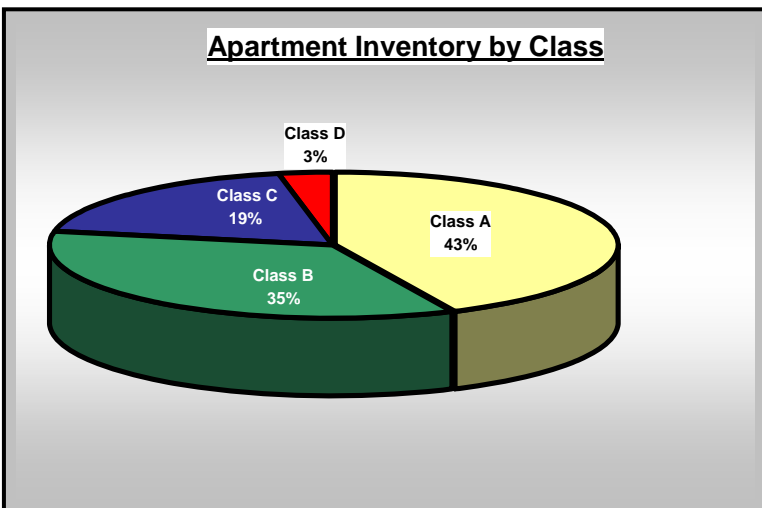
Submarket Performance

Of the 22 Austin submarkets, the **Southwest** submarket reported the highest absorption over the quarter, at 181 units, followed by the **Cedar Park/Leander** submarket, which posted absorption of 173 units. The weakest demand was found in the **Arboretum** submarket, which absorbed -163 units over the quarter.

Within each of the classes, the **Southwest** submarket reported the highest Class A absorption over the quarter with 180 units absorbed, while **Arboretum** reported the weakest absorption with -45 units absorbed. Absorption in the Class B market over the quarter was highest in **San Marcos** at 52 units and lowest in the **Arboretum** submarket at -31 units. In the Class C market, the **Far West** submarket posted the highest absorption, as 91 units were absorbed over the quarter. The weakest Class C absorption was posted by the **Arboretum** submarket, with -87 units absorbed. Class D absorption was strongest in **South** submarket, with 20 units absorbed, and weakest in the **Southeast** submarket, with -64 units absorbed.

Apartment Inventory

There are a total of 676 operating or under-construction projects (greater than 25 units) in the Austin metro market with a total of 145,923 units. Approximately 43% of the total units is Class A, 35% 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.



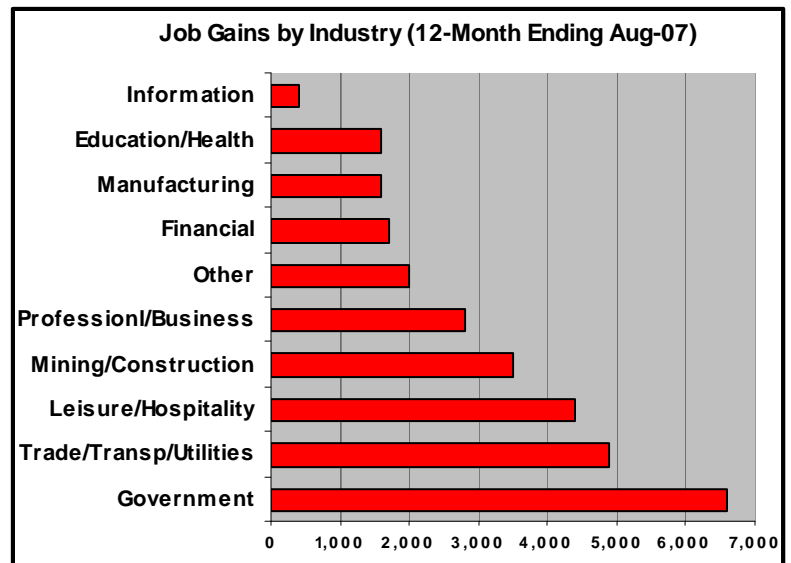
Operating	Projects	Units
Class A	185	57,532
Class B	254	50,368
Class C	176	27,493
Class D	35	3,995
TOTAL**	650	139,385

Under Cons.	Projects	Units
Class A	19	5,329
Class B *	7	1,209
TOTAL**	26	6,538

* 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 increased to 3.5%, while the total number of nonagricultural wage and salary jobs increased to 749,600 in August 2007, according to the **Texas Workforce Commission**. This month's total is 29,500 jobs more than at this time last year. Of the nonagricultural employers, the Government sector gained 6,600 jobs over the previous 12 months; Trade, Transportation, & Utilities' employment increased by 4,900 jobs; Leisure & Hospitality added 4,400 jobs; Mining & Construction employment increased by 3,500 jobs; Professional & Business Services added 2,800 jobs; Other Services gained 2,000 jobs; Financial Activities gained 1,700 jobs; Manufacturing and Education & Health Services each added 1,600 jobs; while Information employment increased by 400 jobs over the last year.

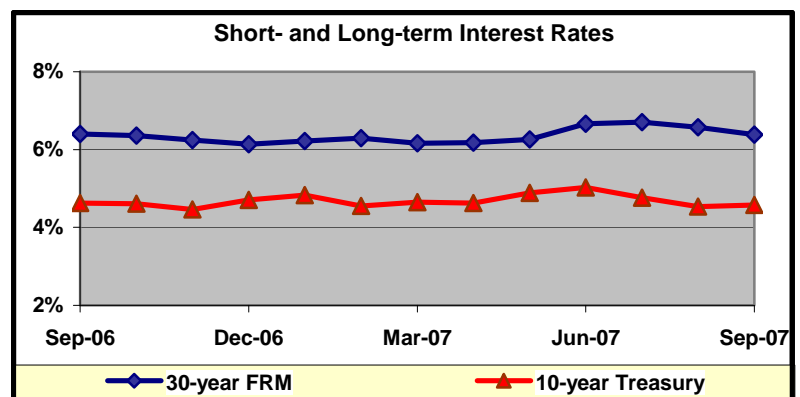


Interest Rates

The yield on the **10-year Treasury** note rose to 4.58% in September 2007, which is down 0.05 points from its 4.63% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.38% in September 2007. One year ago, the 30-year FRM was at 6.40%. The average for the **15-year FRM** in September was 6.05%, up 0.02 points from a year ago.

The **Prime Rate** in September was reported in the Wall Street Journal at 7.75%, down 0.50 points from one year ago.



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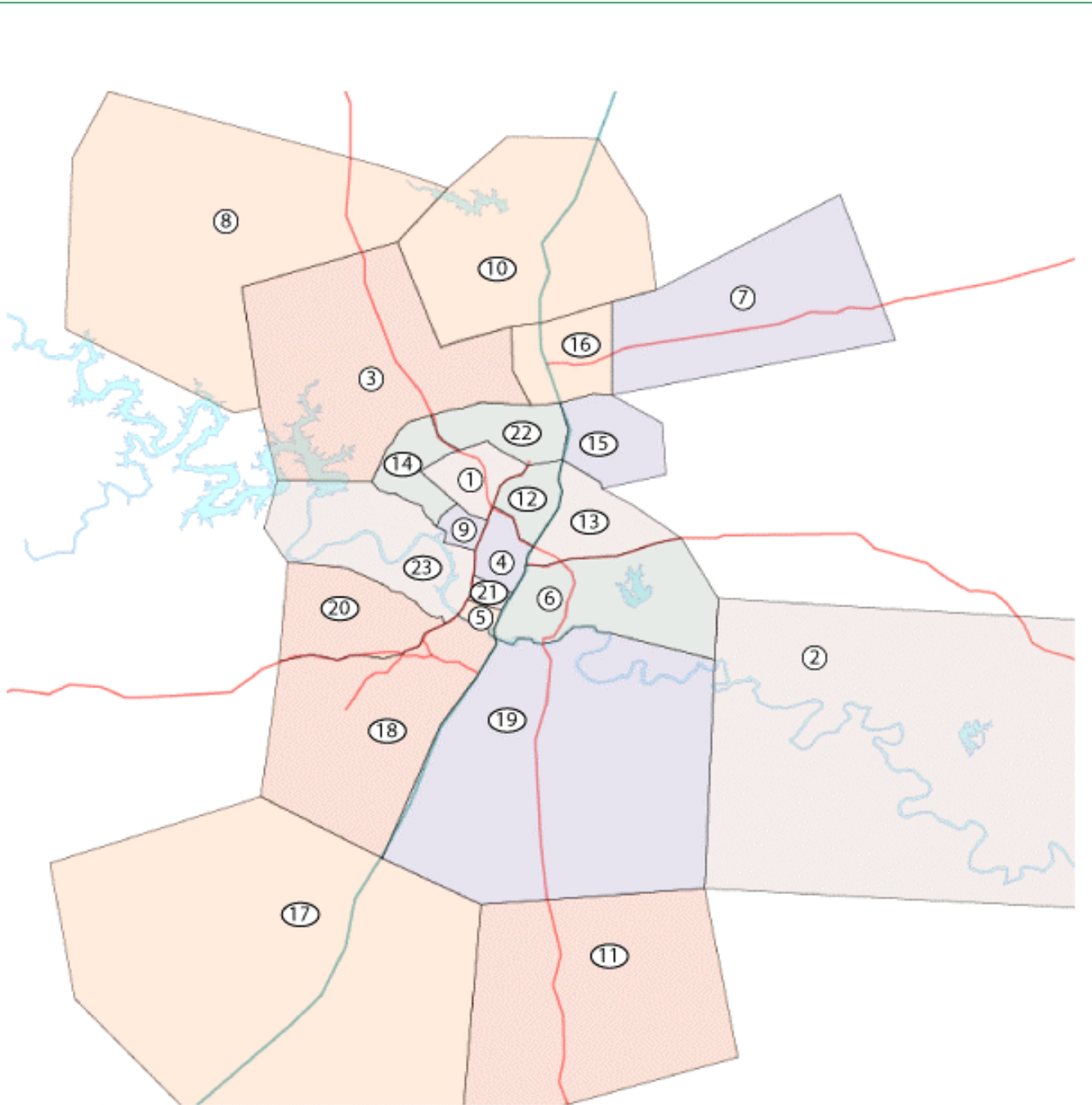
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For more information, contact Kathryn Koepke, 800-856-7325 x 239 or via e-mail kkoepke@pocconnor.com.



Austin Submarkets

1 Arboretum	8 Far Northwest	15 Pflugerville	22 Wells Branch
2 Bastrop	9 Far West	16 Round Rock	23 West
3 Cedar Park/Leander	10 Georgetown	17 San Marcos	
4 Central	11 Lockhart	18 South	
5 Downtown	12 North	19 Southeast	
6 East	13 Northeast	20 Southwest	
7 Far Northeast	14 Northwest	21 UT Campus	

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).