



# Austin Apartment Market Update

Edited by Kathryn Koepke

\$399/year

4<sup>th</sup> Quarter 2007

## Year In Review

The multifamily market in Austin made some strides during 2007, despite a lack luster fourth quarter, where there was negative absorption and a slight decline in occupancy. Annual absorption totaled 1,275 units, with the Class A and B markets both posting strong yearly figures of 1,558 and 577 units, respectively. Absorption over the year was negative in the Class C and D markets, as -587 and -274 units were absorbed, respectively.

Inline with healthy annual absorption figures, rental rates increased as well. Overall rents increased \$0.033 per square foot (psf) to \$0.978 psf, their highest level in five years. All Classes reported yearly increases in rental rates, with the Class C and D markets enjoying the largest increases. Average rents in the Class A market closed out the year at \$1.067 psf, Class B rents are at \$0.924, Class C rents are at \$0.929 psf, while Class D rents are at \$0.806 psf.

All apartment classes enjoyed healthy rent per unit increases in 2007 as well, with the overall rent per unit rate rising \$27.24 per unit or 3.5%. The increases in the individual classes ranged from 1.6% in the Class A market to 5.4% in the Class C market. Class A rent per unit increased \$15.80 to \$998.96. The Class B market posted a rent per unit increase of \$28.08 to \$716.22, which enjoyed a 4.1% yearly increase over the 2006 figure of \$688.14. The Class C market registered the largest rent per unit gain on record over the year of \$34.53 and is currently at \$672.77, its highest figure ever. Class D also enjoyed a 4.1% rent per unit increase for 2007, which was \$24.33. Class D rent per unit finished the year at \$610.23.

Occupancy rates did not fare as well in 2007 as absorption and rental rates did. Overall occupancy rates decreased 0.52 points over the year to 92.28%. Occupancy gains were only seen in the Class B market, while the remaining classes posted yearly losses. Class A occupancy decreased 0.47 points to 91.88%. Occupancy is highest in the Class B market at 93.35%, which enjoyed a 0.36-point yearly increase. Class C occupancy, which fell 0.71 points over the year, remains the lowest of all classes at 90.16%. The Class D market registered the largest point loss over the year of 2.13 and is currently at 91.43%, its lowest figure in three years.

Austin's decrease in occupancy levels can be contributed to the increase in construction activity in 2007. The past year saw 11 projects containing 3,255 units delivered to market. Another 30 projects totaling 7,350 units are currently under-construction and 56 projects with 14,645 units are currently proposed for the area.

By: [Amanda Vasquez](#)

Austin Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	91.88%	93.35%	91.43%	90.16%	92.28%	▼	▼
Rent/Unit	\$999	\$716	\$673	\$610	\$815	▲	▲
Rent/SF	\$1.067	\$0.924	\$0.929	\$0.806	\$0.978	▲	▲
Absorption	8	-58	-231	-243	-524	▼	▼

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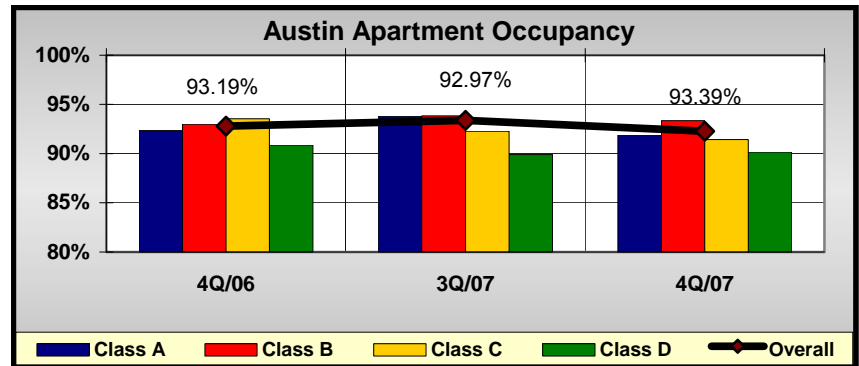
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## Metro Occupancy Overview

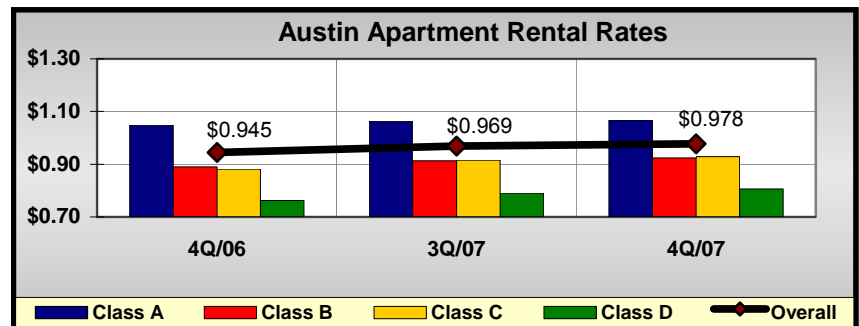
After rebounding during the third quarter, overall occupancy fell in the fourth quarter, decreasing 1.11 points to 92.28%. Overall occupancy is 0.52 points lower than it was one year ago. Class A occupancy declined a full 1.93 points over the quarter to 91.88%, which represents a 0.47-point annual loss. Class B occupancy fell 0.48 points over the fourth quarter to 93.35%. Despite the fall, Class B occupancy remains 0.36 points above last year's level. Occupancy in the Class C market registered a 0.84-point quarterly loss to 91.43%, but is down 2.13 points over the year. Class D occupancy increased 0.25 points over the quarter, but is down 0.71 points over the year to 90.16%, which is the weakest occupancy figure of all classes.



Quarter	Class A	Class B	Class C	Class D	Overall
4Q/06	92.35%	92.99%	93.56%	90.87%	92.80%
3Q/07	93.81%	93.83%	92.27%	89.91%	93.39%
4Q/07	91.88%	93.35%	91.43%	90.16%	92.28%

## Metro Rent Overview

Overall rental rates increased \$0.009 per square foot (psf) over the quarter to \$0.978 psf. All classes posted quarterly rental rate gains, with the Class C and D markets enjoying the largest rental rate increases. Compared to this time last year, overall rental rates are \$0.033 psf, or 3%, higher. Class A rents increased \$0.004 over the quarter to \$1.067 psf, their highest level since the third quarter of 2002. Class A rents are up \$0.019 psf over the last twelve months. Rents in the Class B market, at \$0.924 psf, reported a quarterly increase of \$0.009 psf and an annual increase of \$0.034 psf. Class C rents increased \$0.013 psf over the quarter to \$0.929 psf, which is \$0.048 psf higher than they were one year ago. The Class D market posted a \$0.016-psf quarterly gain in rents to \$0.806 psf. Over the last year, Class D rents have increased \$0.044 psf.



Quarter	Class A	Class B	Class C	Class D	Overall
4Q/06	\$1.048	\$0.890	\$0.881	\$0.762	\$0.945
3Q/07	\$1.063	\$0.913	\$0.916	\$0.790	\$0.969
4Q/07	\$1.067	\$0.924	\$0.929	\$0.806	\$0.978

## Submarket Performance

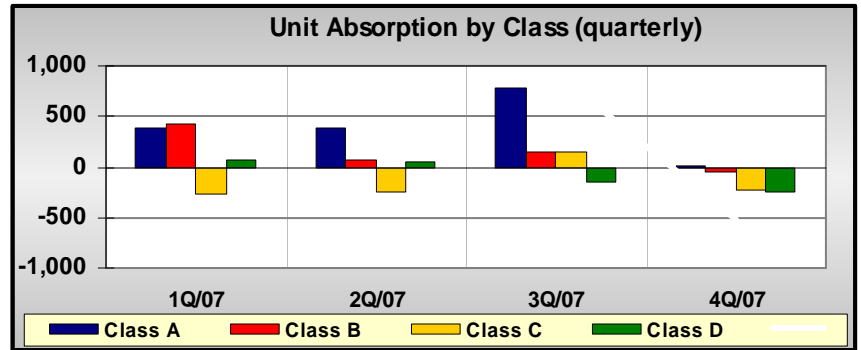
Of the 22 Austin submarkets, the **UT Campus** reported the highest occupancy at 98.88%, followed by **Bastrop** at 97.50%. The lowest average occupancy levels were found in the **West** and **Downtown** submarkets at 83.44% and 83.58%, respectively. The **Downtown** and **West** submarkets reported the highest average rental rates, at \$1.481 and \$1.219 psf, respectively. The lowest rents were found in the **Lockhart** submarket at \$0.647 psf.

Of the submarkets with more than one property, Central reported the highest Class A occupancy at 96.52%, while the lowest Class A occupancy was reported in the East submarket at 58.00%. In the Class B market, Downtown reported the highest occupancy at 98.74%, while the Georgetown submarket posted the lowest occupancy at 82.98%. In the Class C market, UT Campus and Downtown both reported occupancy at 100%, while the East submarket reported the lowest occupancy at 80.46%. In the Class D market, the East submarket reported the highest occupancy at 95.50%, while the South submarket posted the lowest occupancy 85.83%.

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 \$0.912 psf. In the Class B market, rental rates were the highest in the **UT Campus** submarket at \$1.153 psf, while the lowest rents were found in **Cedar Park/Leander** at \$0.781 psf. Class C rents were the highest in **UT Campus** at \$1.268 psf and the lowest in the **Lockhart** submarket at \$0.661 psf. In the Class D market, the **Central** submarket reported the highest rents at \$0.884 psf, while the lowest rents were found in the **Northeast** submarket at \$0.727 psf.

## Metro Absorption Overview

Overall demand declined over the fourth quarter, as -524 units were absorbed. The vast majority of the negative absorption was attributed to the Class C market, while the Class B and D markets also posted negative quarterly figures. Overall annual absorption now stands at 1,275 units. The **Class A** market absorbed 8 units during the quarter, the strongest of all classes, while annual Class A absorption, at 1,558 units, is also the strongest of all classes. **Class B** absorbed -58 units over the quarter, bringing annual absorption down to 578 units. After positive absorption in the third quarter, **Class C** absorption moved into the red, with -231 units absorbed over the quarter. With the quarterly loss, Class C absorption remains in the red, at -587 units. **Class D** also posted a negative quarterly absorption, as -243 units were absorbed. The negative figure brings annual Class D absorption down to -274 units.



12-Month Ending	Class A	Class B	Class C	Class D	Overall
4Q/05	1,103	1,385	739	209	3,436
4Q/06	1,065	239	266	133	1,703
4Q/07	1,558	578	-587	-274	1,275

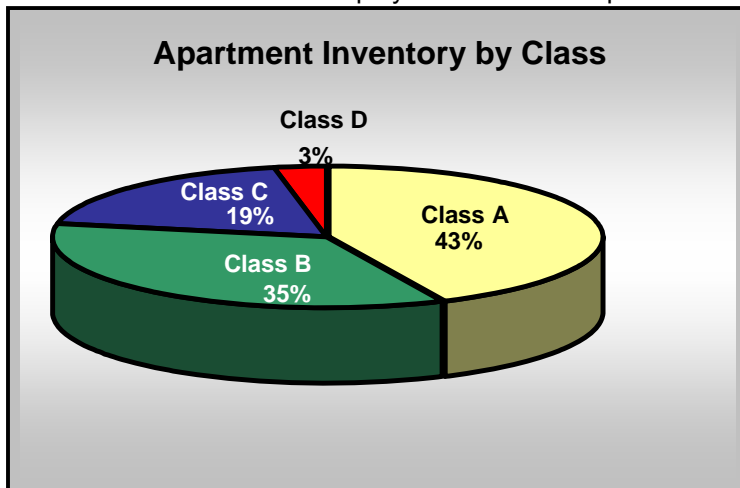
## Submarket Performance

Of the 22 Austin submarkets, the **Cedar Park/Leander** submarket reported the highest absorption over the quarter, at 67 units, followed by the **West** submarket, which posted absorption of 32 units. The weakest demand was found in the **Southeast** submarket, which absorbed -309 units over the quarter.

Within each of the classes, the **Cedar Park/Leander** and **East** submarkets reported the highest Class A absorption over the quarter with 62 units absorbed each, while **Southwest** reported the weakest absorption with -65 units absorbed. Absorption in the Class B market over the quarter was highest in **Northeast** at 86 units and lowest in the **South** submarket at -145 units. In the Class C market, the **Central** submarket posted the highest absorption, as 4 units were absorbed over the quarter. The weakest Class C absorption was posted by the **Northeast** submarket, with -48 units absorbed. Class D absorption was strongest in **North** submarket, with 13 units absorbed, and weakest in the **Southeast** submarket, with -267 units absorbed.

## Apartment Inventory

There are a total of 680 operating or under-construction projects (greater than 25 units) in the Austin metro market with a total of 146,745 units. Approximately 43% of the total units are Class A, 35% are Class B, 19% are Class C, and 3% are Class D. The chart and table below display Greater Austin apartment market inventory by class.



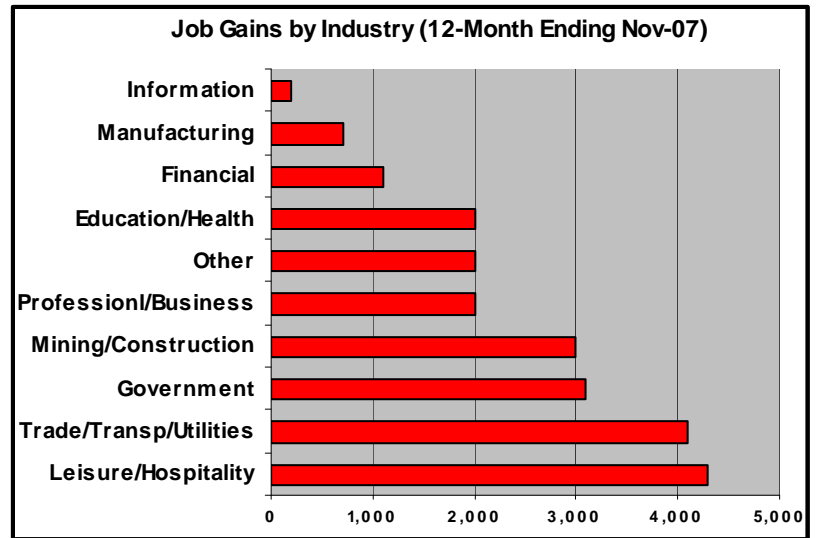
Operating	Projects	Units
Class A	189	58,550
Class B	253	50,188
Class C	176	27,493
Class D	35	3,712
TOTAL**	653	139,943

Under Cons.	Projects	Units
Class A	21	5,760
Class B *	6	1,042
TOTAL**	27	7,350

\* 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 761,200 in November 2007, according to the **Texas Workforce Commission**. This month's total is 22,500 jobs more than at this time last year. Of the nonagricultural employers, the Leisure & Hospitality sector added 4,300 jobs; Trade, Transportation, & Utilities' employment increased by 4,100 jobs; Government sector gained 3,100 jobs over the previous 12 months; Mining & Construction employment increased by 3,000 jobs; Professional & Business Services added 2,000 jobs; Other Services gained 2,000 jobs; Education & Health Services added 2,000 jobs; Financial Activities gained 1,100 jobs; and Manufacturing added 700 jobs; while Information employment increased by 200 jobs over the last year.

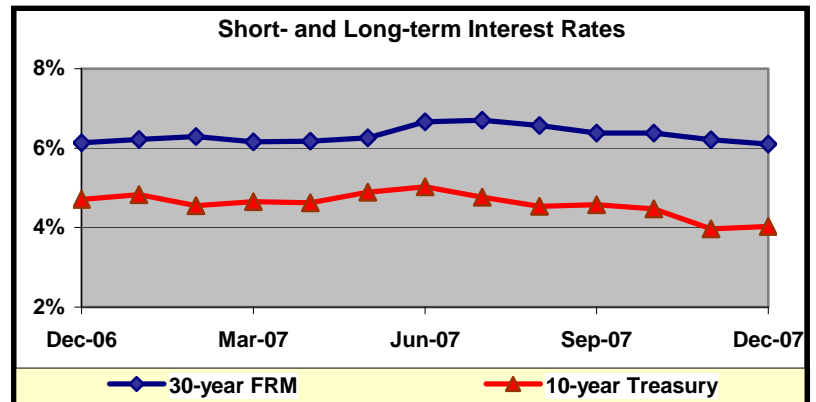


## Interest Rates

The yield on the **10-year Treasury** note fell to 4.03% in December 2007, up 0.68 points from its 4.71% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.10% in December 2007. One year ago, the 30-year FRM was at 6.14%. The average for the **15-year FRM** in December was 5.75%, down 0.13 points from a year ago.

The **Prime Rate** in December was reported in the Wall Street Journal at 7.25%, the same level from a year ago.



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## Research & Consulting

### Market Research & Consulting Services

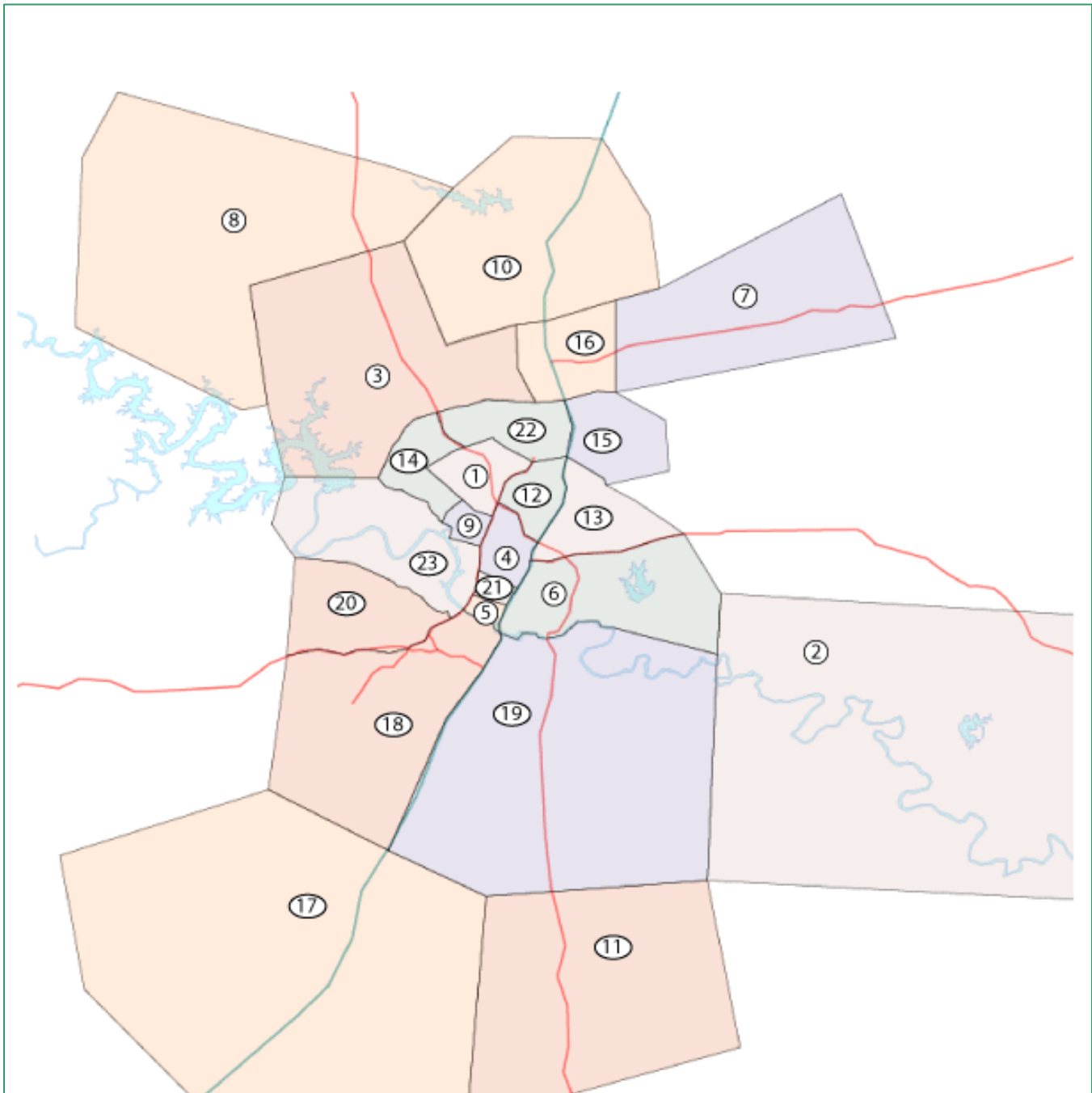
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## Austin Submarkets

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).