

Austin Apartment Market Update



Edited by Kathryn Koepke

\$399/year

1st Quarter 2007

Great Expectations

Austin's multifamily market made strides during the first quarter of 2007, after a bit of a disappointing fourth quarter, where there was minimal absorption and declining occupancy. Overall absorption totaled 605 units, with the Class A and B markets both posting strong quarterly figures of 394 and 420 units, respectively. Absorption over the quarter was also positive in the Class D market, as 65 units were absorbed. Class C was the lone class to record negative figures over the quarter and over the year.

Inline with healthy absorption figures, occupancy increased as well. Overall occupancy climbed 0.49 points over the quarter to 93.30%, which is only slightly below last year's level of 93.48%. Mirroring absorption patterns, occupancy gains were made in the Class A, B, and D markets. Class A occupancy increased 0.78 points to 93.13%. Occupancy is highest in the Class B market at 93.93%, which enjoyed a 0.92-point quarterly increase. The Class D market registered a 1.70-point gain over the quarter and is currently at 92.57%, its highest figure on record. Even Class C occupancy, which fell 1.01 points over the quarter, remains elevated at 92.58%.

In addition to absorption and occupancy, rental rates also made positive strides. Overall rents increased \$0.006 per square foot (psf) to \$0.950 psf, their highest level in four years. All Classes reported quarterly increases in rental rates, with the Class C and D markets enjoying the largest increases. Average rents in the Class A market are now at \$1.051 psf, Class B and C rents are both at \$0.892 psf, while Class D rents are at \$0.781 psf.

As for construction activity, it appears to be at a moderate pace. So far in 2007, 2 projects containing 758 units have been delivered to market and another 23 projects totaling 5,807 units are currently under-construction. We expect a total of around 3,500 units to be completed in 2007, which should be readily absorbed by the market. With strong market demand, construction activity at a sensible pace, and expected job growth of over 20,000 jobs, it appears the Austin market is in great shape for the remainder of 2007. We expect Class A occupancy to fluctuate between 92.5% and 93.5% throughout the remainder of the year, Class B occupancy will likely remain strong at over 93%, Class C occupancy is expected to dip slightly to around 91%, while Class D occupancy is expected to hold steady around the 92% mark. Additionally, rental rates are expected to rise another 2% to 3% in 2007.

By: [Leslie Countryman](#)

Austin Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	93.13%	93.93%	92.58%	92.57%	93.30%	▲	▼
Rent/Unit	\$986	\$691	\$645	\$602	\$792	▲	▲
Rent/SF	\$1.051	\$0.892	\$0.892	\$0.781	\$0.950	▲	▲
Absorption	384	420	-264	65	605	▲	▲

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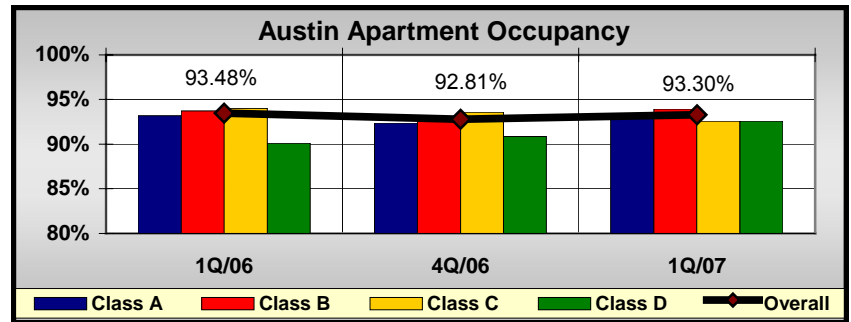


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Metro Occupancy Overview

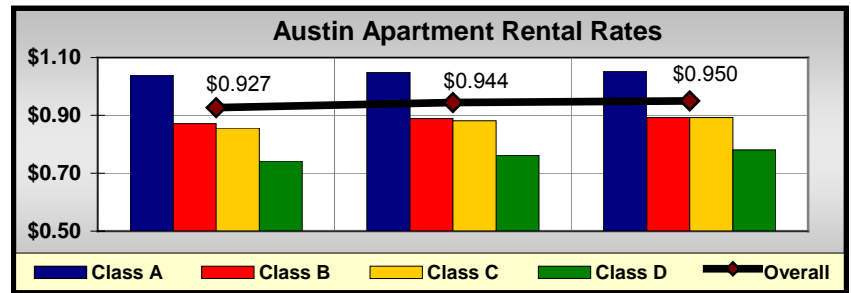
Overall occupancy climbed 0.49 points over the first quarter to 93.30%, aided by quarterly gains in the Class A, B, and D markets. Despite the gains, overall occupancy remains 0.18 points below last year's level. **Class A** occupancy increased 0.78 points over the first quarter to 93.13%, which represents a 0.07-point decline over the last twelve months. Occupancy in the **Class B** market posted a quarterly increase of 0.92 points to 93.93%, but is down 0.19 points over the year. **Class C** occupancy fell 1.01 points over the quarter and is down 1.44 points over the year to 92.58%. At 92.57%, the **Class D** market registered a 1.70-point quarterly gain and a 2.48-point annual gain.



Quarter	Class A	Class B	Class C	Class D	Overall
1Q/06	93.20%	93.74%	94.02%	90.09%	93.48%
4Q/06	92.35%	93.01%	93.59%	90.87%	92.81%
1Q/07	93.13%	93.93%	92.58%	92.57%	93.30%

Metro Rent Overview

Overall rental rates gained a healthy \$0.006 over the quarter to \$0.950 per square foot (psf), the highest level since the first quarter of 2003. Overall rents have increased \$0.023 psf, or 2.50%, over the last year. **Class A** rents increased \$0.003 over the quarter to \$1.051 psf, and have gained \$0.012 psf over the past year. **Class B** rents also posted a quarterly gain of \$0.003, which brought rents up to \$0.892 psf. Class B rents are \$0.021 psf higher than they were one year ago. Rents in the **Class C** market, at \$0.892 psf, reported a quarterly increase of \$0.011 psf and an annual increase of \$0.036 psf. **Class D** rents gained \$0.019 psf over the quarter, reaching \$0.781 psf. Class D rents are up \$0.039 psf over the last twelve months.



Quarter	Class A	Class B	Class C	Class D	Overall
1Q/06	\$1.039	\$0.871	\$0.856	\$0.742	\$0.927
4Q/06	\$1.048	\$0.889	\$0.881	\$0.762	\$0.944
1Q/07	\$1.051	\$0.892	\$0.892	\$0.781	\$0.950

Submarket Performance

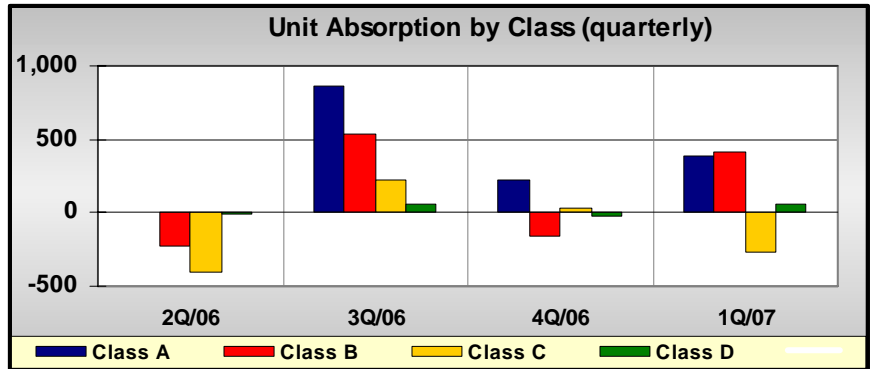
Of all the submarkets in the Greater Austin market, **Bastrop** reported the highest occupancy at 99.22%, followed by **Downtown** at 98.64%. The lowest average occupancy levels were found in the **Georgetown** and **Far Northeast** submarkets at 86.71% and 87.00%, respectively. The **Downtown** and **West** submarkets reported the highest average rental rates, at \$1.452 and \$1.175 psf, respectively. The lowest rents were found in the **Lockhart** submarket at \$0.622 psf.

Of the sectors with more than one complex, the **Downtown** submarket recorded the highest Class A occupancy at 98.83%, while the **Southeast** submarket posted the lowest occupancy at 83.77%. Class B occupancy was highest in the **Bastrop** and **Southwest** submarkets, which were both near full, while the lowest occupancy was found in the **Georgetown** submarket at 85.95%. The **Downtown** and **UT Campus** submarkets both posted Class C occupancies near 100.00%, while the **East** submarket recorded the lowest Class C occupancy at 78.07%. Of the seven submarkets with Class D units, the highest occupancy was found in the **Southeast** submarket at 96.28%, while the lowest was found in the **South** submarket at 80.53%.

The highest Class A rents were found in the **Downtown** submarket at \$1.918 psf, followed by **Central** at \$1.265 psf, while the lowest were found in the **Georgetown** submarket at \$0.889 psf. The **West** submarket reported the highest Class B rents, at \$1.145 psf, while the **Lockhart** submarket had the lowest at \$0.635 psf. Class C rents were highest in the **UT Campus** submarket, at \$1.176 psf, and lowest in the **Lockhart** submarket at \$0.608 psf. The **Downtown** submarket once again reported the highest Class D rents at \$1.042 psf, while the lowest rents were found in the **Northeast** submarket at \$0.714 psf.

Metro Absorption Overview

Overall demand was solid in the first quarter of 2007, as 605 units were absorbed. Positive quarterly absorption was recorded in the Class A, B, and D markets. Overall annual absorption now stands at 1,737 units. Quarterly absorption in the **Class A** market registered 384 units, while absorption over the past year is at 1,465 units, the strongest annual figure of all classes. **Class B** reported the strongest absorption over the quarter at 420 units. Class B absorption over the past twelve months totals 583 units. **Class C** was the lone class to post negative quarterly absorption, as -264 units were absorbed. The negative figure brings annual Class C absorption down to -404 units. The **Class D** market absorbed 65 units over the quarter, bringing annual absorption to 93 units.



12-Month Ending	Class A	Class B	Class C	Class D	Overall
1Q/05	2,284	536	5	5	4,823
1Q/06	964	1,028	314	314	3,651
1Q/07	1,465	583	-404	93	1,737

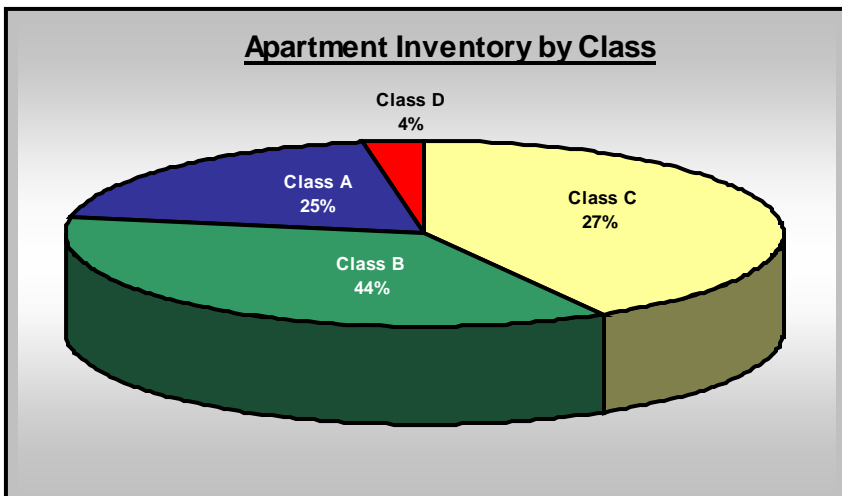
Submarket Performance

Of the 22 Austin submarkets, the **South** submarket posted the highest absorption over the quarter, at 130 units, followed by the **Northwest** submarket, which posted absorption of 124 units. The weakest demand was found in the **East** submarket, which absorbed -98 units.

Class A absorption was strongest in the **Northeast** and **Round Rock** submarkets, where 127 and 97 units were absorbed. Class A absorption was softest in the **Arboretum** submarket where -53 units were absorbed. The **South** submarket led Class B absorption, as 129 units were absorbed. Class B absorption was weakest in the **Lockhart** submarket, which absorbed -14 units. Class C absorption was soft across the board, with the strongest performing sector, **San Marcos**, absorbing only 13 units. The lowest Class C figures were found in the **East** and **South** submarkets, where -126 and -76 units were absorbed. The strongest Class D absorption was found in the **South** submarket at 42 units, while the **East** submarket posted the weakest at -5 units.

Apartment Inventory

There are a total of 657 operating or under-construction projects (greater than 25 units) in the Austin metro market with a total of 141,565 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	174	54,569
Class B	252	49,934
Class C	175	27,445
Class D	34	3,956
TOTAL**	635	135,904

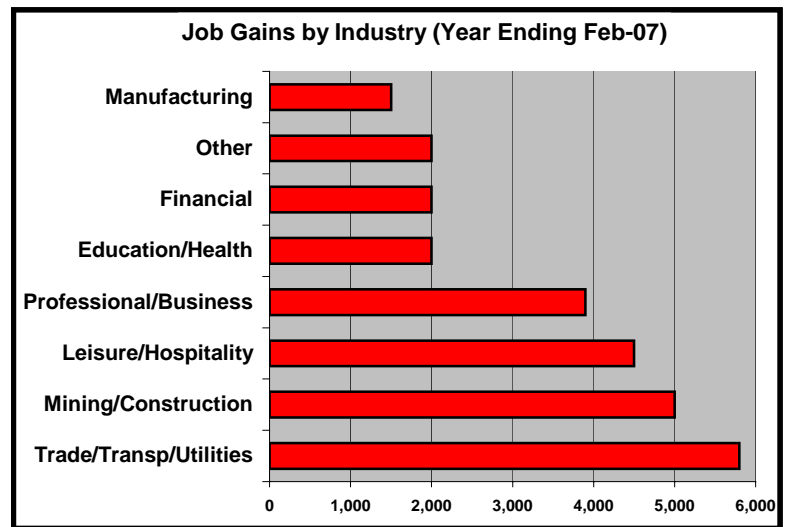
Under Cons.	Projects	Units
Class A	15	4,378
Class B *	7	1,283
TOTAL**	22	5,661

* 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 was unchanged at 3.8%, while the total number of nonagricultural wage and salary jobs increased to 736,800 in February 2007, according to the **Texas Workforce Commission**. This month's total is 32,600 jobs more than at this time last year. Of the nonagricultural employers, the Government sector gained 6,200 jobs over the previous 12 months; Trade, Transportation, & Utilities gained 5,800 jobs; Mining & Construction added 5,000 jobs; Leisure & Hospitality employment increased by 4,500 jobs; Professional & Business Services added 3,900 jobs; Education & Health Services, Financial Activities, and Other Services each gained 2,000 jobs; while Manufacturing employment increased by 1,500 jobs. The only industry to lose jobs of the year was the Information sector, which has lost 300 jobs.

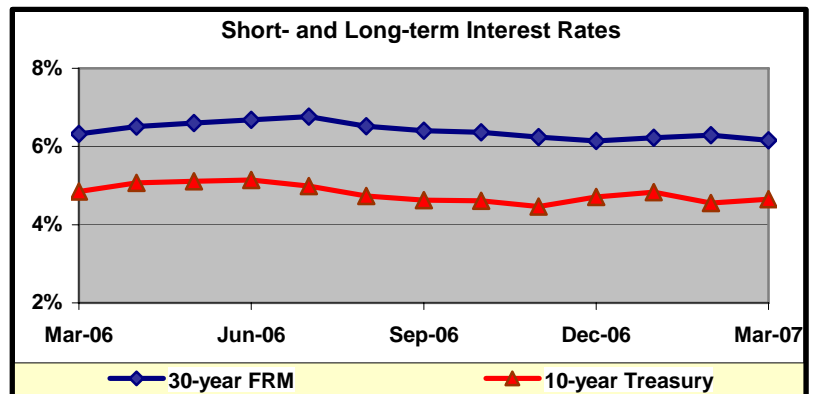


Interest Rates

The yield on the **10-year Treasury** note rose to 4.67% in April 2007, down 0.40 points from its 5.07% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.16% in March 2007. One year ago, the 30-year FRM was at 6.32%. The average for the **15-year FRM** in March was 5.88%, down 0.09 points from a year ago.

The **Prime Rate** in April was reported in the Wall Street Journal at 8.25%, up 0.50 points from a year ago.



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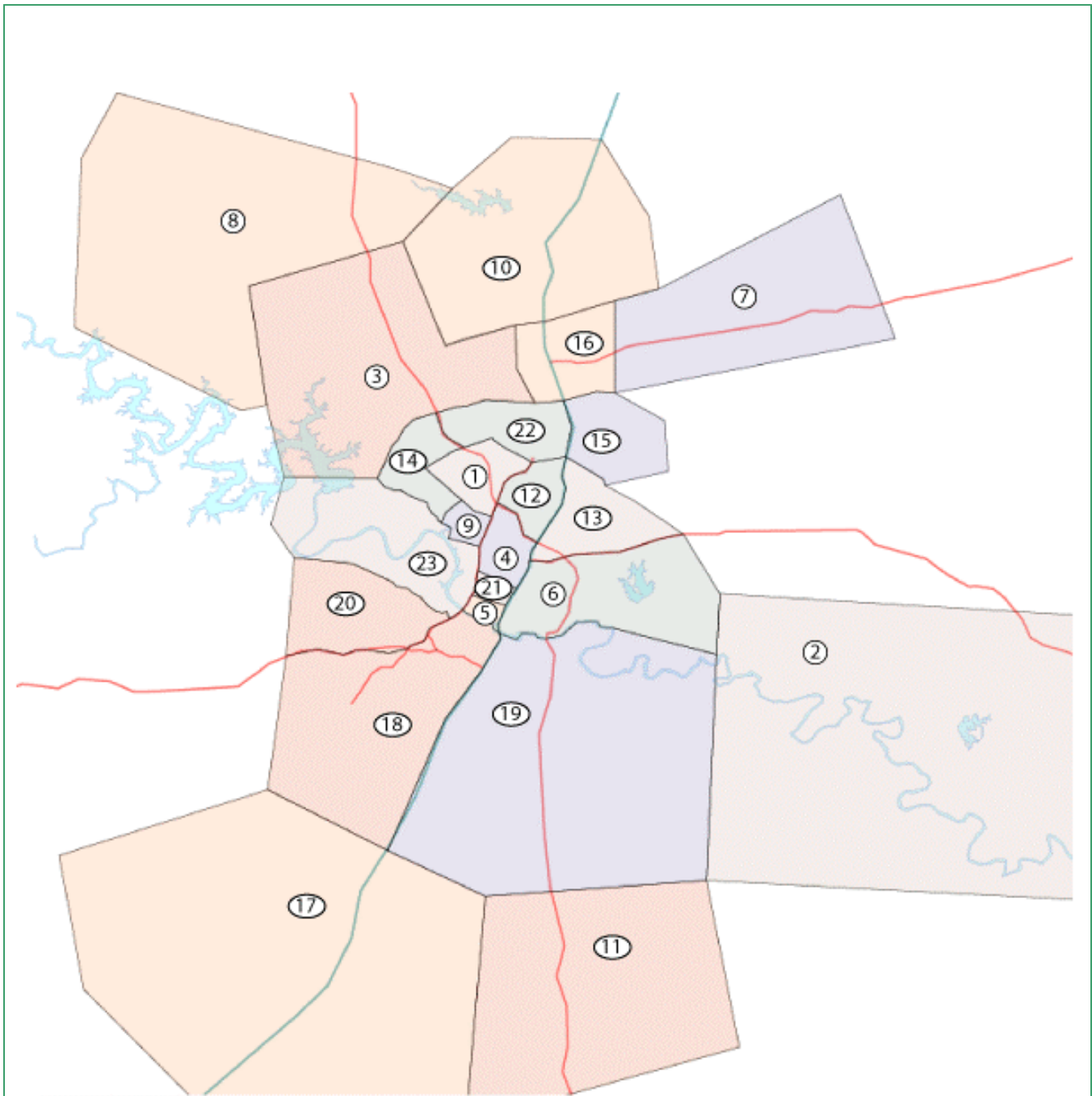
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Austin Submarkets

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).



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