

Austin Apartment Market Update

Edited by Kathryn Koepke

\$399/year

2nd Quarter 2006

New Construction Ramps Up

Construction in the Austin area reached a peak in 2001, when a whopping 11,665 units were delivered to market. Since then, construction has steadily declined. Approximately 5,000 units were built in 2003, with 2,544 new units coming online in 2004. In 2005, just 5 new projects were built totaling 934 units, and the first half of 2006 has been even slower, with just 335 new units delivered. However, it looks as if things will change, as 27 projects are currently under construction totaling 6,522 units in the Austin area. On top of that, there are 23 proposed projects in the area with 6,416 units. Austin's economy has heated up once again after several years of dormancy, and it is no coincidence that construction has also picked up.

Much of the new development is occurring in the Downtown Austin area. Activity is brisk, as four projects totaling 767 units are underway, with several more proposed. Notable among the new projects is AMLI Second Street Tower, which will house 231 units in an 18-story building in the Warehouse District. In downtown's shadow, just west of the University of Texas campus, four developments targeting students are under construction; at their completion, they will add 327 units to the inventory.

South Austin is seeing increasing activity as well. Notable among the projects in the southern portion of the city is Alexan Onion Creek, a 386-unit project near the under-construction Southpark Meadows retail development. Closer in, SoCo Lofts will add 300 new units to the booming South Congress corridor. Also, fast-growing southwest Austin will soon get 402 new units as The Villages of Bella Vista nears completion on Brodie Lane.

Occupancy has begun to decline thanks to weak demand, dropping more than one point over the last quarter. As new units begin to come online in the second half of the year and the first part of 2007, it is likely that occupancy will further decline. Austin's runaway single-family market will help keep the figures from dipping too low, as home prices and interest rates continue to rise and fewer can afford to buy a house, particularly first-time homebuyers. However, occupancy figures dipping closer to 90% can be expected by the end of the year and in early 2007.

By: [Chris Law](#)

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O'Connor & Associates now offers online apartment market and property data in all four major Texas markets, Austin, DFW, Houston, and San Antonio. Brokers, lenders, investors, owners, and apartment vendors have relied on our superior research and accurate data for over decades!

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Austin Apartment Market at a Glance

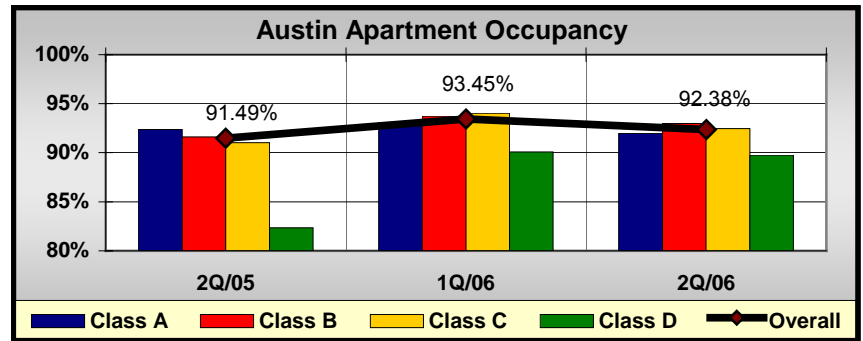
	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	91.96%	92.99%	92.47%	89.76%	92.38%	▼	▲
Rent/Unit	\$982	\$675	\$624	\$574	\$779	▲	▲
Rent/SF	\$1.046	\$0.872	\$0.862	\$0.745	\$0.932	▲	▲
Absorption	-11	-226	-421	-14	-672	▼	▼



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Metro Occupancy Overview

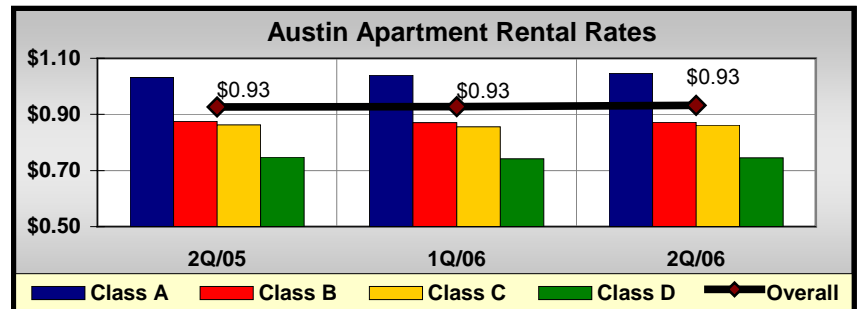
Overall occupancy declined 1.07 points to 92.38% over the second quarter, with every class posting a significant decrease in occupancy. However, occupancy remains 0.89 points above levels this time last year. **Class A** occupancy slid 1.17 points over the quarter to 91.96%, and is 0.40 points below last year's level at this time. **Class B** occupancy dipped 0.74 points to 92.99%, but has increased 1.36 points over the last year. The **Class C** market recorded the greatest decrease over the quarter, falling 1.56 points to 92.47%. After seven straight quarters of increasing occupancy, the **Class D** market posted a decrease of 0.33 points over the quarter. However, at 89.76%, Class D occupancy is 7.40 points above this time last year.



Quarter	Class A	Class B	Class C	Class D	Overall
2Q/05	92.36%	91.63%	91.04%	82.36%	91.49%
1Q/06	93.13%	93.73%	94.03%	90.09%	93.45%
2Q/06	91.96%	92.99%	92.47%	89.76%	92.38%

Metro Rent Overview

Overall rental rates increased \$0.004 to \$0.932 per square foot (psf) over the quarter, and have increased \$0.005 since this time last year. **Class A** rents continued their steady rise, increasing \$0.006 to \$1.046 psf. Rental rates in Class A have increased \$0.015 psf over the last year. The **Class B** market posted a slight increase of \$0.001 psf over the quarter. However, at \$0.872 psf, Class B rents have decreased \$0.003 over the last 12 months. **Class C** rents posted a healthy increase of \$0.006 over the quarter to \$0.862 psf. Rents in Class C have decreased \$0.001 psf since this time last year. Rents in the **Class D** market gained \$0.003 over the quarter to \$0.745 psf. However, Class D rents are down \$0.002 from last year's level at this time.



Quarter	Class A	Class B	Class C	Class D	Overall
2Q/05	\$1.031	\$0.875	\$0.863	\$0.747	\$0.927
1Q/06	\$1.040	\$0.871	\$0.856	\$0.742	\$0.928
2Q/06	\$1.046	\$0.872	\$0.862	\$0.745	\$0.932

Submarket Performance

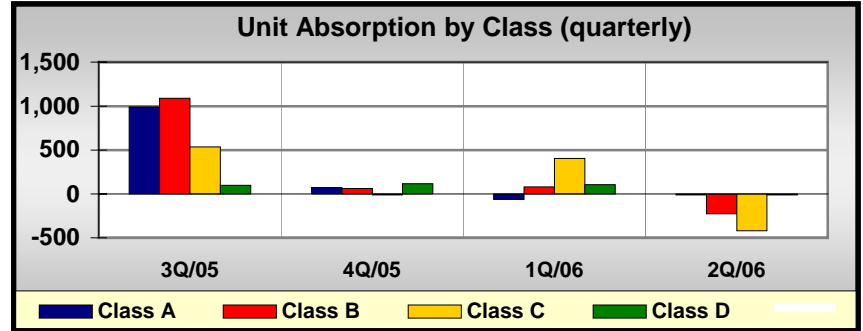
Of all the submarkets in the Greater Austin market, **UT Campus** reported the highest occupancy at 97.47%, followed by **Downtown** at 96.76%. The lowest average occupancy levels were found in the **Lockhart** and **San Marcos** submarkets at 81.28% and 88.55%, respectively. The highest average rental rates were reported by the **Downtown** and **West** submarkets, at \$1.401 and \$1.188 psf, respectively. The lowest rents were reported in the **Lockhart** submarket at \$0.611 psf.

The **UT Campus** submarket led the way in the Class A category at 98.00%, with the **Georgetown** submarket posting the lowest occupancy at 80.83%. The highest Class B occupancy was found in the **Downtown** submarket at 98.13%, while the **Lockhart** submarket, with one class B project, posted occupancy of 73.00%. The **Bastrop** submarket had one fully occupied Class C project, while the **East** submarket had the lowest average Class C occupancy at 88.48%. Of the seven submarkets with Class D units, the **Downtown** submarket once again had the highest occupancy at 95.00%, while the **South** submarket had the lowest at 83.37%.

The highest Class A rents were found in the **Downtown** submarket at \$1.854 psf, followed by **UT Campus** at \$1.235 psf, while the lowest were found in the **Cedar Park/Leander** submarket at \$0.887 psf. The highest Class B rents were reported by the **West** submarket at \$1.023 psf, while the lowest were found in the **Lockhart** submarket at \$0.615 psf. The **UT Campus** submarket featured the highest Class C prices, at \$1.154 psf, while the **Lockhart** submarket again reported the lowest at \$0.608 psf. The highest rents in Class D were again found in the **Downtown** submarket, at \$0.980 psf, while the lowest were found in the **Southeast** submarket at \$0.688 psf.

Metro Absorption Overview

All classes reported negative absorption in the second quarter. **Class A** absorption was in the red for the second straight quarter, at -11 units. Absorption for the last 12 months in Class A is 987 units. The **Class B** market posted weak demand in the second quarter, absorbing -226 units. However, 12-month absorption is the strongest of any class, at 1,001 units. After a strong first quarter, second quarter demand in **Class C** plummeted, with -421 units absorbed. Year-over-year absorption in Class C stands at 507 units. **Class D** absorption in the second quarter was -14 units; in the past 12 months, the Class D market has absorbed 300 units. Despite the weak absorption figures in the second quarter, the market has had relatively strong demand over the last 12 months, with an overall absorption of 2,795 units during that period.



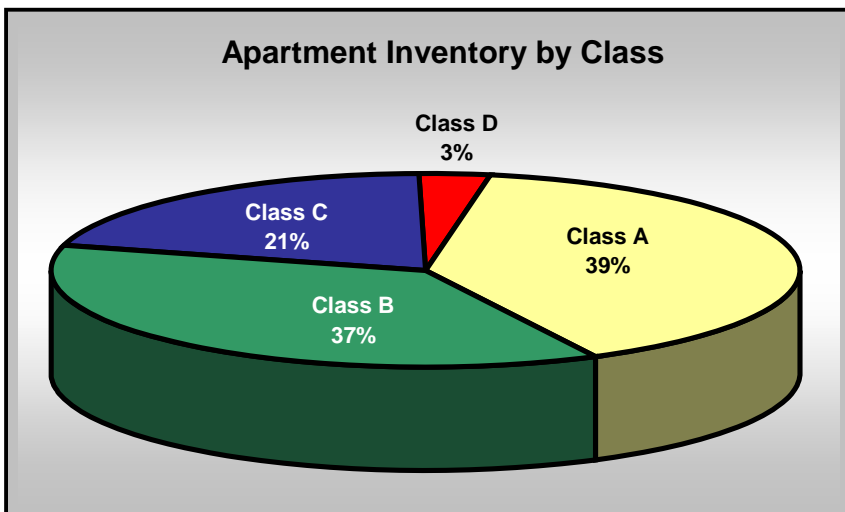
12-Month Ending	Class A	Class B	Class C	Class D	Overall
2Q/04	2,745	1,790	-349	-101	4,085
2Q/05	1,568	1,542	711	14	3,835
2Q/06	987	1,001	507	300	2,795

Submarket Performance

The **Southwest** submarket reported the strongest demand in the second quarter, posting an absorption of 122 units. However, 12 of the 22 submarkets posted negative absorption this quarter; the **North** and **Arboretum** submarkets posted the weakest absorption figures, at -151 and -134 units, respectively. The **Southwest** submarket was bolstered by a Class A absorption of 138 units, the highest reported in Class A; the lowest absorption in the class was found in the **Arboretum** submarket at -122 units. Overall demand for Class B units was weak in the second quarter; the **Georgetown** submarket absorbed 28 units, while the **San Marcos** submarket absorbed -74 units. Almost every submarket with Class C units posted negative absorption; the **South** submarket absorbed 15 units, with the **North** and **East** submarkets absorbing -103 and -99 units, respectively. Of the 7 submarkets with Class D properties, the **Southeast** submarket recorded the highest absorption in the second quarter at 5 units, while the **North** submarket posted the lowest at -13 units.

Apartment Inventory

There are a total of 628 operating or under-construction projects (greater than 25 units) in the Austin metro market with a total of 133,811 units. Approximately 39% of the total units is Class A, 37% is Class B, 21% is Class C, and 3% is Class D. The chart and table below display Greater Austin apartment market inventory by class.



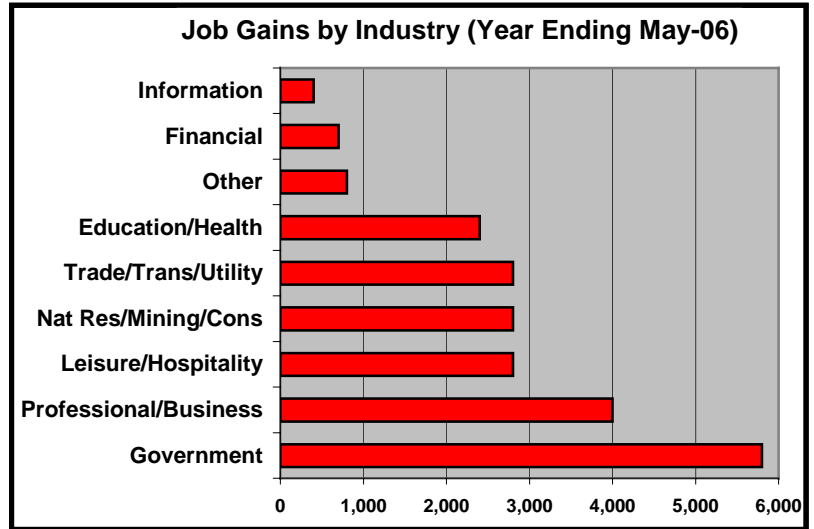
Operating	Projects	Units
Class A	154	48,386
Class B	242	48,031
Class C	176	27,519
Class D	34	3,956
TOTAL **	601	127,289

Under Cons.	Projects	Units
Class A	16	4,650
Class B *	6	1,269
TOTAL **	27	6,522

* Class B includes primarily 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 4.0%, while the total number of nonagricultural wage and salary jobs increased to 715,900 in May 2006, according to the **Texas Workforce Commission**. This month's total is 22,300 jobs more than at this time last year. Of the nonagricultural employers, the Government sector gained 5,800 jobs over the previous 12 months; Professional & Business Services gained 4,000 jobs; Leisure & Hospitality, Trade, Transportation, & Utilities, and Natural Resources, Mining, & Construction each added 2,800 jobs; and Education & Health Services added 2,400 jobs. The only industry to lose jobs over the year was the Manufacturing sector with -200 jobs. The largest monthly gains were found in the Leisure & Hospitality and Trade, Transportation, & Utilities sectors.

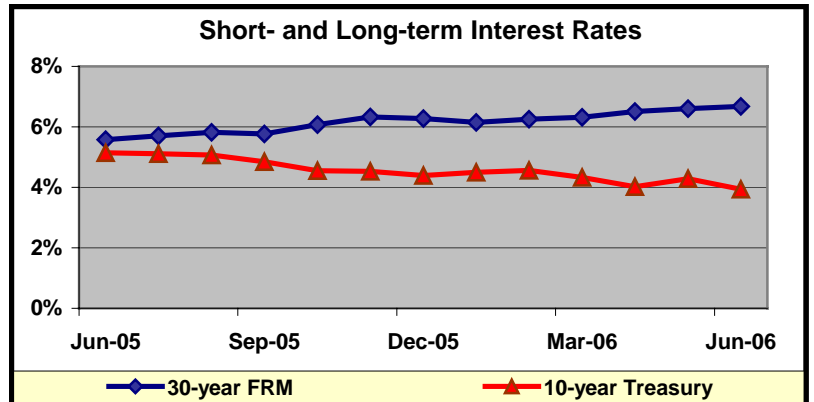


Interest Rates

The yield on the **10-year Treasury** note rose to 5.14% on the last Friday of June 2006, up 1.2 points from its 3.94% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.68% in June 2006, the highest level since January 2002. One year ago, the 30-year FRM was at 5.58%. The average for the **15-year FRM** in June was 6.31%, the highest level since January 2002 and up 1.14 points from a year ago.

The **Prime Rate** in June was reported in the Wall Street Journal at 8.25%, up 2.00 points from a year ago. It is now at the highest rate since February 2001.



Apartment Data News Release

O'Connor & Associates is pleased to re-launch the **ApartmentLink**, the best online apartment data source in Texas, previously offered by **Monarch Data**. Some of the upgrades and enhancements made to the platform include:

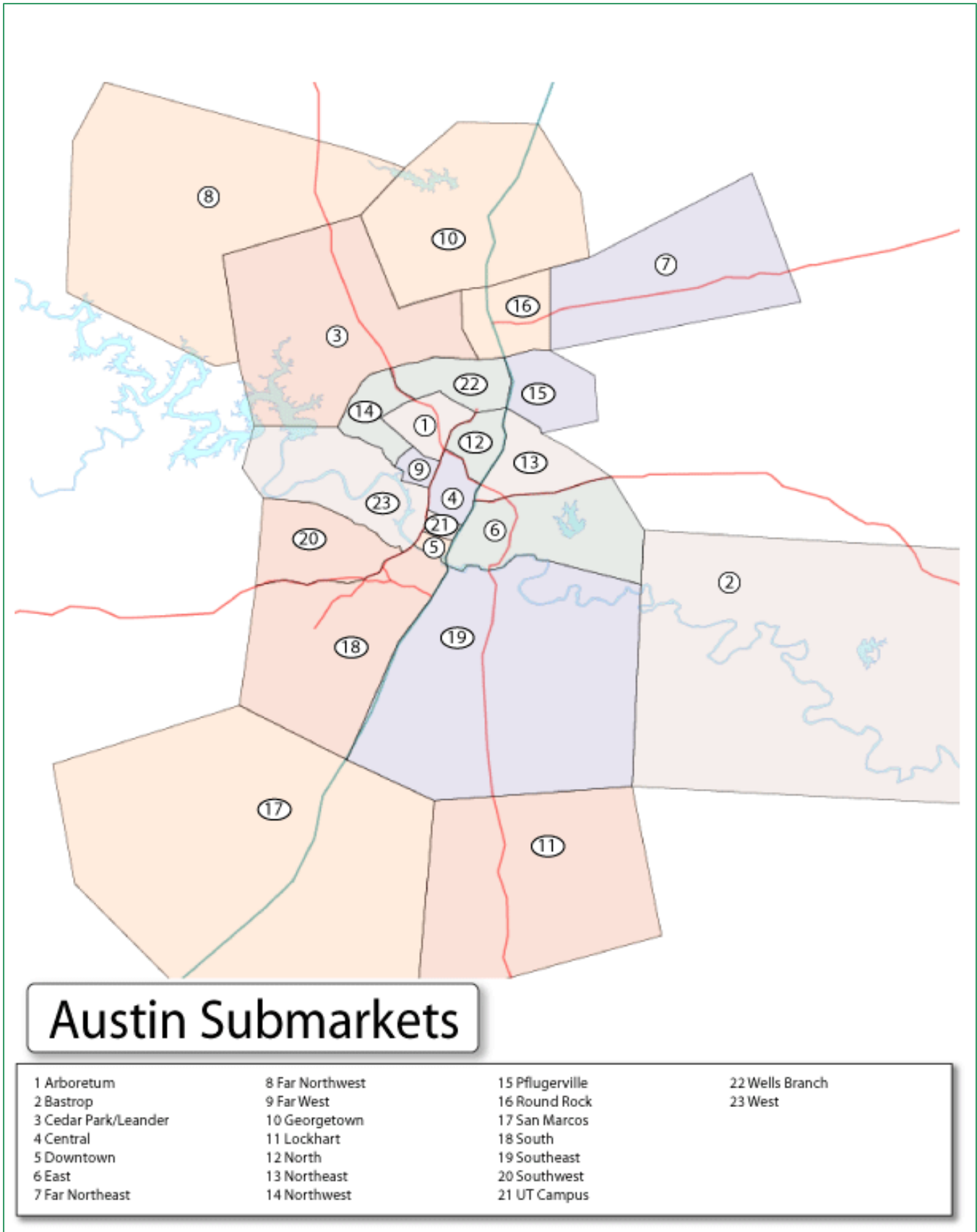
- ◆ Ownership Information
- ◆ More comprehensive data
- ◆ More search options
- ◆ More analytical reports
- ◆ More user-friendly
- ◆ Mapping & emailing options
- ◆ Excel exporting function
- ◆ Monthly updates, real-time data

All this and more now available at your fingertips from a company trusted by apartment industry leaders for over 30 years!

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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).