

Austin Apartment Market Update

Edited by Kathryn Koepke

\$399/year

3rd Quarter 2006

Back to the 'Burbs

While much of the discussion in the Austin apartment market over the past few months has centered on the downtown area, outlying portions of the city are turning in strong performances as well. While intown living is still very popular – the Downtown submarket continues to post very high occupancy levels – demand has been strongest in the suburbs over the first three quarters of the year.

The highest absorption figures so far in 2006 have been found in the Southwest submarket, with 340 units absorbed, and the South submarket, with 285 units absorbed. This comes as no surprise, as the boom south of Town Lake continues, and huge retail projects such as Southpark Meadows are followed by hordes of new residents. Southwest Austin becomes more popular all the time, as residents become more aware of the peaceful, Hill Country-like setting and the short commute to Austin's inner core, not to mention the prospect of a wild deer or two running through one's front yard.

The northern part of town has posted strong figures this year as well. The North submarket has absorbed 192 units, while the more far-flung Round Rock submarket has posted absorption of 161 units. As job growth ramps up and Austin's economy continues to improve, people will continue to look to the north side of town for a place to live, as its close proximity to many major area employers such as Dell make it an attractive option.

Intown living has many advantages, especially in a city such as Austin, where downtown serves as an employment and entertainment center, retail in the area is unparalleled, and there are special amenities nearby such as Town Lake. These advantages are certainly not lost on Austinites. However, Austin as a whole is booming, and the suburbs feature distinct advantages as well, including affordable housing, top-ranked schools, and more open space. Downtown Austin and adjacent areas will continue to be popular, but as the Austin apartment market continues to post positive numbers, the intown areas will inevitably share the wealth with the suburbs.

By: [Chris Law](#)

Austin Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	92.66%	93.77%	93.39%	91.32%	93.18%	▲	▼
Rent/Unit	\$986	\$684	\$634	\$582	\$787	▲	▲
Rent/SF	\$1.049	\$0.884	\$0.874	\$0.757	\$0.942	▲	▲
Absorption	933	535	224	60	1,752	▲	▼

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

Market Map5

Submarket Boundaries

Methodology6

Research and reporting, definitions

Did you know?

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!

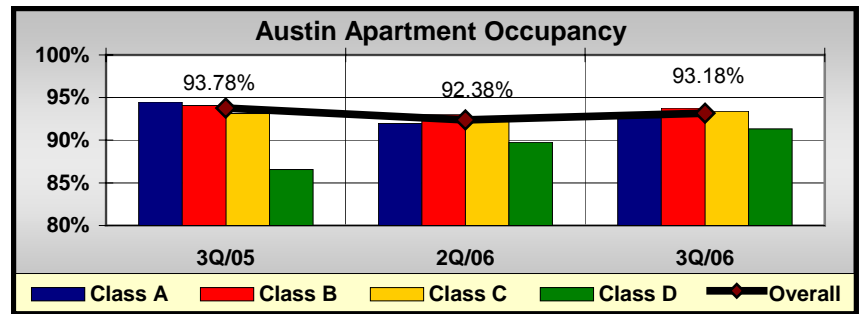
Visit <http://www.oconnordata.com> for more information, sample reports, and FREE trial registration.



O'Connor & Associates
 Research & Consulting Services
 1-800-856-REAL
www.poconnor.com
www.oconnordata.com

Metro Occupancy Overview

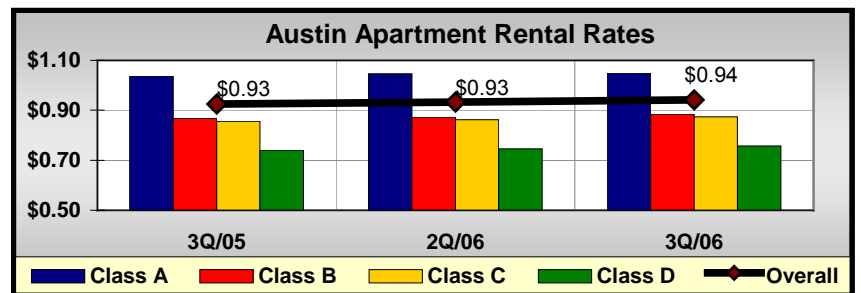
Occupancy levels rebounded over the third quarter, increasing 0.80 points to 93.18%, as every class recorded an increase in occupancy. Occupancy has decreased 0.60 points in the last year. **Class A** occupancy gained 0.70 points over the quarter. However, at 92.66%, Class A occupancy is 1.81 points below levels 12 months ago. **Class B** occupancy increased 0.78 points to 93.77%, but has decreased 0.29 points over the last year. **Class C** occupancy jumped 0.92 points over the quarter, and is 0.27 points above levels this time last year. The **Class D** market recovered in a big way from a second quarter decrease in occupancy, gaining 1.56 points over the third quarter to 91.32%, marking just the second time in four years occupancy has been above 90%.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/05	94.47%	94.06%	93.12%	86.58%	93.78%
2Q/06	91.96%	92.99%	92.47%	89.76%	92.38%
3Q/06	92.66%	93.77%	93.39%	91.32%	93.18%

Metro Rent Overview

Overall rental rates jumped \$0.010 to \$0.942 per square foot (psf) over the third quarter, bringing the year-over year increase to \$0.017 psf. Rental rates in **Class A** increased \$0.003 over the quarter to \$1.049 psf, and have climbed \$0.012 psf over the last year. **Class B** rents posted a healthy increase of \$0.012 over the quarter to \$0.884 psf. Rents in Class B have increased \$0.017 psf since this time last year. **Class C** posted a strong quarter as well, as rents increased \$0.012 psf. Currently at \$0.874 psf, Class C rents have gained \$0.018 psf over the last year. The **Class D** market also recorded substantial gains, increasing \$0.012 to \$0.757 psf. Class D rents have increased \$0.017 psf since this time last year.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/05	\$1.037	\$0.867	\$0.856	\$0.740	\$0.925
2Q/06	\$1.046	\$0.872	\$0.862	\$0.745	\$0.932
3Q/06	\$1.049	\$0.884	\$0.874	\$0.757	\$0.942

Submarket Performance

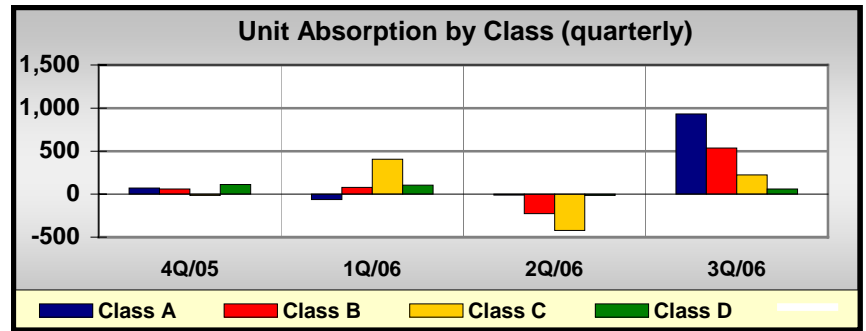
Of all the submarkets in the Greater Austin market, **Downtown** reported the highest occupancy at 98.77%, followed by **UT Campus** at 97.54%. The lowest average occupancy levels were found in the **Georgetown** and **Far Northeast** submarkets at 80.61% and 86.00%, respectively. The **Downtown** and **West** submarkets reported the highest average rental rates, at \$1.373 and \$1.191 psf, respectively. The lowest rents were found in the **Lockhart** submarket at \$0.611 psf.

The **Downtown** submarket recorded the highest Class A occupancy at 98.13%, while the lowest occupancy was found in the **Georgetown** submarket at 81.83%. The highest Class B occupancy was found in the **Downtown** submarket at 99.83%, while the **Georgetown** submarket again posted the lowest occupancy at 80.34%. Class C occupancy was highest in the **UT Campus** submarket at 100.00%, while the **Lockhart** submarket recorded the lowest occupancy at 84.90%. Of the seven submarkets with Class D units, the highest occupancy was found in the **Downtown** submarket at 98.00%, while the lowest was found in the **South** submarket at 80.21%.

The highest Class A rents were found in the **Downtown** submarket at \$1.761 psf, followed by **Central** at \$1.265 psf, while the lowest were reported by the **Cedar Park/Leander** submarket at \$0.886 psf. Class B rents were highest in the **West** submarket, at \$1.095 psf, while the **Lockhart** submarket had the lowest at \$0.615 psf. The **Downtown** submarket recorded the highest Class C rents, at \$1.163 psf, with the **Lockhart** submarket again reporting the lowest at \$0.608 psf. The **Downtown** submarket also posted the highest rents in Class D at \$1.042 psf, while the lowest rents were found in the **Northeast** submarket at \$0.704 psf.

Metro Absorption Overview

Demand rebounded in the third quarter, as all classes posted positive absorption. **Class A** absorption was at 933 units over the quarter, the highest figure in two years. Absorption over the last year in Class A is 930 units. Third quarter absorption in **Class B** was strong as well, at 535 units. Class B absorption over the last 12 months is at 447 units. The **Class C** market posted a quarterly absorption of 224 units, bringing year-over-year absorption back into the red at 196 units. Class D absorption over the quarter was 60 units, bringing annual absorption in Class D to 265 units. The strong absorption figures in the third quarter across all classes helped push total absorption since this time last year further into positive territory, at 1,838 units.



12-Month Ending	Class A	Class B	Class C	Class D	Overall
3Q/04	2,170	1,875	-256	-62	3,727
3Q/05	1,295	1,462	886	95	3,738
3Q/06	930	447	196	265	1,838

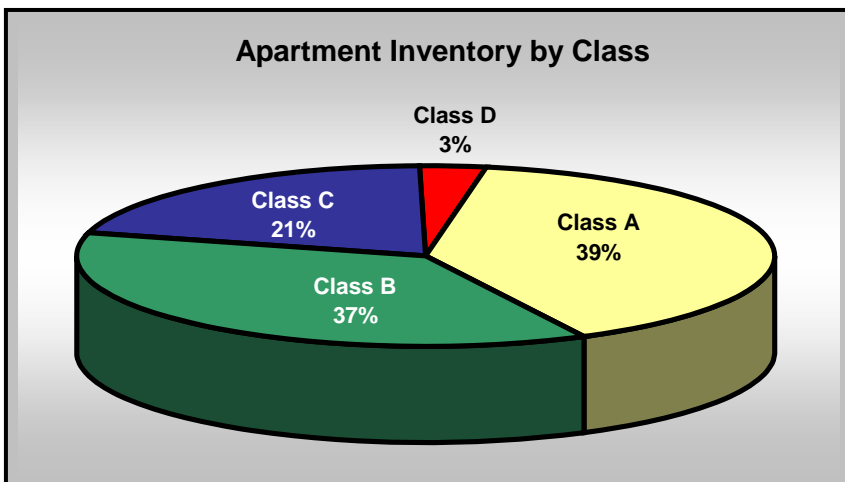
Submarket Performance

After a second quarter in which more than half of the 22 submarkets posted negative absorption, just 4 submarkets reported negative absorption in the third quarter. The **South** submarket led the way with 235 units absorbed over the quarter, followed by the **Arboretum** submarket, which posted absorption of 235 units. The lowest absorption was found in the **North** submarket, at -62 units.

Class A absorption was strong over the quarter, bolstered by the **South** and **Round Rock** submarkets, which absorbed 308 and 146 units, respectively. Class A absorption was lowest in the **North** submarket at -31 units. The third quarter saw strong demand for Class B units as well; the **Southeast** submarket absorbed 123 units, while the **North** submarket posted absorption of -75 units. Class C absorption was helped by several sectors posting strong figures, with the **Far West** sector absorbing 63 units, while the lowest Class C absorption was found in the **East** and **Lockhart** sectors, which both posted absorption of -8 units. Of the 7 sectors with Class D units, the **Central** submarket set the pace, absorbing 33 units, while the weakest demand was found in the **East** submarket, which absorbed -15 units.

Apartment Inventory

There are a total of 629 operating or under-construction projects (greater than 25 units) in the Austin metro market with a total of 133,954 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.



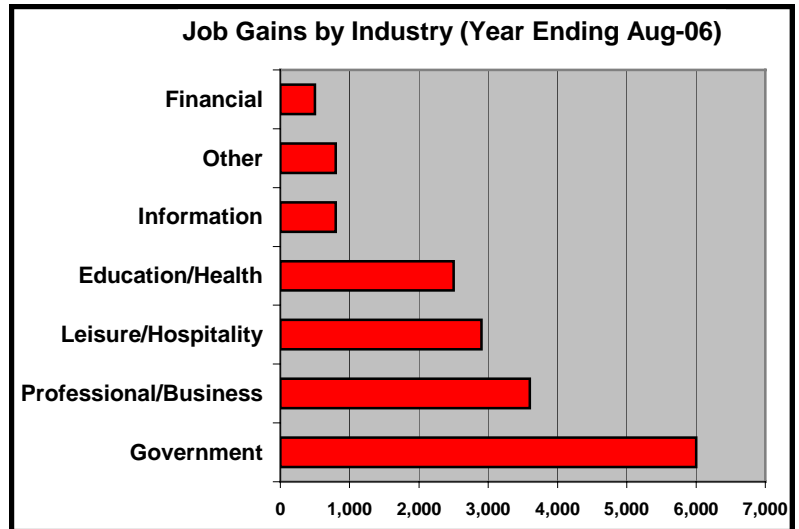
Operating	Projects	Units
Class A	156	49,044
Class B	244	48,373
Class C	176	27,519
Class D	34	3,956
TOTAL**	610	128,892

Under Cons.	Projects	Units
Class A	14	4,035
Class B *	5	1,027
TOTAL**	21	5,484

* 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 decreased to 4.2%, while the total number of nonagricultural wage and salary jobs increased to 714,000 in August 2006, according to the **Texas Workforce Commission**. This month's total is 19,400 jobs more than at this time last year. Of the nonagricultural employers, the Government sector gained 6,000 jobs over the previous 12 months; Professional & Business Services gained 3,600 jobs; Leisure & Hospitality and Natural Resources, Mining, & Construction each added 2,900 jobs; and Education & Health Services added 2,500 jobs. The only industries to lose jobs over the year were the Manufacturing and Trade, Transportation, & Utilities sectors, with -500 and -100 jobs, respectively. The largest monthly gain was found in the Government sector.

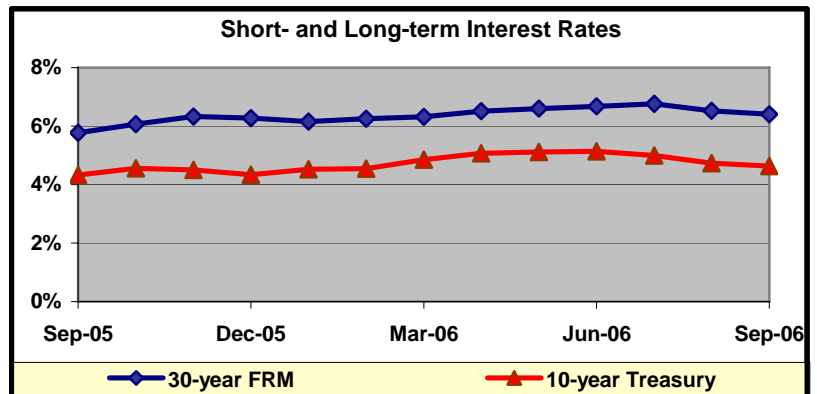


Interest Rates

The yield on the **10-year Treasury** note rose to 4.62% on the first business day of October 2006, up 0.23 points from its 4.39% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.40% in September 2006. One year ago, the 30-year FRM was at 5.77%. The average for the **15-year FRM** in September was 6.08%, up 0.72 points from a year ago.

The **Prime Rate** in September was reported in the Wall Street Journal at 8.25%, up 1.50 points from a year ago.



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:

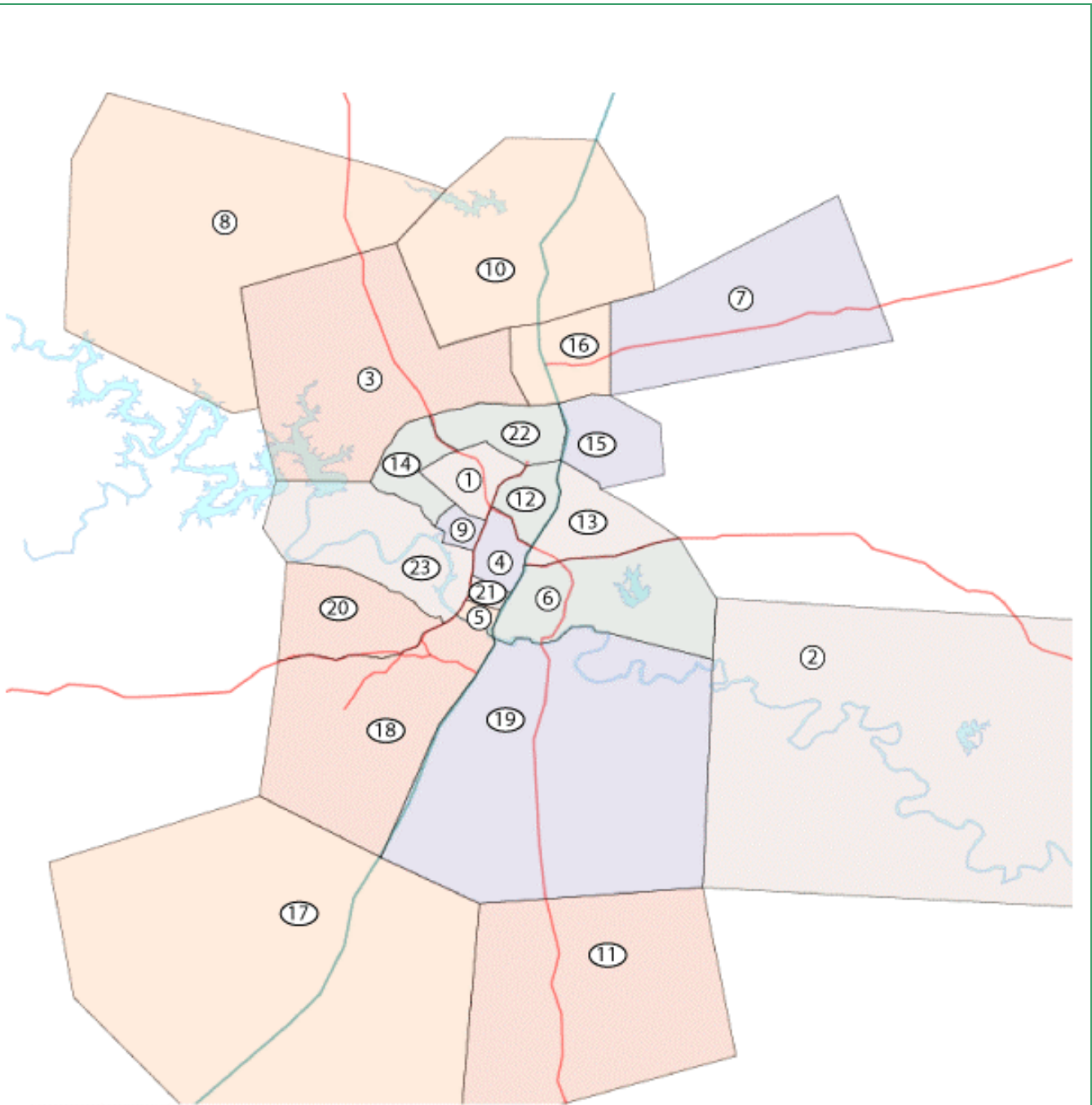
- ◆ Ownership Information
- ◆ More comprehensive data
- ◆ More search options
- ◆ More analytical reports
- ◆ More user-friendly
- ◆ Mapping & emailing options
- ◆ Excel exporting function
- ◆ Monthly updates, real-time data

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

Contact us for a Free Trial registration or visit

www.OconnorData.com

Austin.....Dallas/Fort Worth.....Houston.....San Antonio



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).