Austin Apartment Market Update

Edited by Kathryn Koepke **$399/year** **4th Quarter 2006**

Changes Coming?

Approximately 16 months have elapsed since Hurricane Katrina sent thousands of New Orleans residents to other cities, including Austin, and there is little discussion these days about the hurricane or the displaced residents still occupying thousands of apartment units all over Texas. FEMA recently estimated that there are still 6,700 hurricane evacuees living in Austin and Travis County, although many would likely consider them little different from any other resident.

The issue is anything but over. After months of flipflopping, FEMA has firm plans to end assistance to hurricane evacuees at the end of February. In fact, these plans are so firm that it would take an act of Congress to extend the payments. Most importantly for the apartment market, FEMA will not pay evacuees' apartment rent after February.

While the Austin apartment market is in relatively good shape and has recorded occupancy levels above 90% for more than 2 years, FEMA's decision to end assistance may cause occupancy to dip in the apartment market. It is difficult to predict exactly how the Austin market will be affected by FEMA's discontinuation of rent payments. With fourth quarter demand soft with -37 units absorbed, demand over the first quarter of 2007 is likely to be lethargic at best, and there is a real possibility that at the end of February, hundreds of units could be vacated in the area in a matter of days.

As far as what parts of town will be affected most, it is unlikely that downtown Austin and surrounding central Austin neighborhoods will notice much of a change, as the area features many high-end complexes that typically post high occupancy rates. North Austin, with its relatively high concentration of Class B and C complexes, would seem to be susceptible, as would East Austin. Outlying suburbs, including Round Rock, Cedar Park, and Georgetown, are likely to have some units vacated by evacuees. Amidst all the uncertainty and the possibility of softness in the first quarter, the Austin market is in good shape compared to other Texas markets to handle a slight setback.

By: Chris Law

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Austin Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	92.19%	93.01%	93.49%	90.87%	92.73%	▼	▼
Rent/Unit	$984	$689	$638	$586	$789	▲	▲
Rent/SF	$1.048	$0.889	$0.880	$0.762	$0.945	▲	▲
Absorption	109	-158	30	-18	-37	▼	▲

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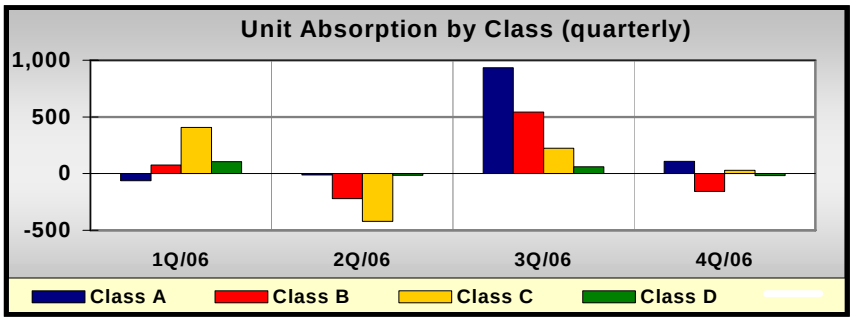
Occupancy & Rent Trends

Metro Occupancy Overview

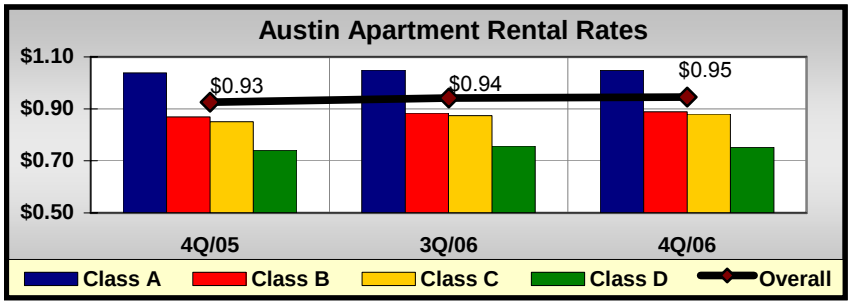
Occupancy levels slumped over the fourth quarter, sliding 0.47 points to 92.73%, as three of the four classes reported decreases in occupancy. Occupancy has decreased 0.59 points in the last year. **Class A** occupancy fell 0.47 points over the quarter to 92.19%. Occupancy levels in Class A are now 1.09 points below last year's level. **Class B** occupancy decreased 0.80 points to 93.77%, and has decreased 0.96 points over the past year. **Class C** was the only class to post an increase in occupancy, gaining 0.10 points to 93.49%. Occupancy in Class C has increased 0.38 points over the past year. The **Class D** market reversed course over the fourth quarter, losing 0.45 points after a large third-quarter gain. However, currently at 90.87%, occupancy is 3.41 points higher than this time last year.



Quarter	Class A	Class B	Class C	Class D	Overall
4Q/05	93.28%	93.97%	93.11%	87.46%	93.32%
3Q/06	92.66%	93.81%	93.39%	91.32%	93.20%
4Q/06	**92.19%**	**93.01%**	**93.49%**	**90.87%**	**92.73%**

Metro Rent Overview

Overall rental rates gained $0.003 to $0.945 per square foot (psf) over the fourth quarter. Rents have increased $0.019 psf over the past 12 months. The **Class A** market posted a decrease in rents, as rents slipped $0.001 to $1.048 psf; Class A rents have increased $0.010 psf since this time last year. **Class B** rents increased $0.005 over the quarter to $0.889 psf, and have gained $0.020 psf over the past year. **Class C** rents gained $0.006 over the quarter to $0.880 psf, bringing the year-over-year gain to a healthy $0.029 psf. Rents in **Class D** decreased $0.005 over the fourth quarter to $0.752 psf. However, rents have increased $0.011 psf over the past year.



Quarter	Class A	Class B	Class C	Class D	Overall
4Q/05	$1.038	$0.869	$0.851	$0.741	$0.926
3Q/06	$1.049	$0.884	$0.874	$0.757	$0.942
4Q/06	**$1.048**	**$0.889**	**$0.880**	**$0.752**	**$0.945**

Submarket Performance

Of all the submarkets in the Greater Austin market, **UT Campus** reported the highest occupancy at 98.02%, followed by **Downtown** at 97.76%. The lowest average occupancy levels were found in the **Georgetown** and **Bastrop** submarkets at 82.22% and 86.61%, respectively. The **Downtown** and **West** submarkets reported the highest average rental rates, at $1.435 and $1.187 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 97.47%, while the **Northwest** submarket posted the lowest occupancy at 85.04%. The highest Class B occupancy was found in the **Downtown** submarket at 98.56%, while the lowest occupancy was found in the **Bastrop** submarket at 80.00%. The **Downtown** and **UT Campus** submarkets both posted Class C occupancies of 100.00%, while the **East** submarket recorded the lowest Class C occupancy at 84.52%. Of the seven submarkets with Class D units, the highest occupancy was found in the **Southeast** submarket at 96.48%, while the lowest was found in the **South** submarket at 71.14%.

The highest Class A rents were found in the **Downtown** submarket at $1.889 psf, followed by **Central** at $1.265 psf, while the lowest were found in the **Cedar Park/Leander** submarket at $0.892 psf. The **West** submarket reported the highest Class B rents, at $1.095 psf, while the **Lockhart** submarket had the lowest at $0.635 psf. Class C rents were highest in the **Downtown** submarket, at $1.161 psf, and lowest in the **Lockhart** submarket at $0.608 psf. The **Downtown** submarket again reported the highest Class D rents at $1.042 psf, while the lowest rents were found in the **Northeast** submarket at $0.706 psf.

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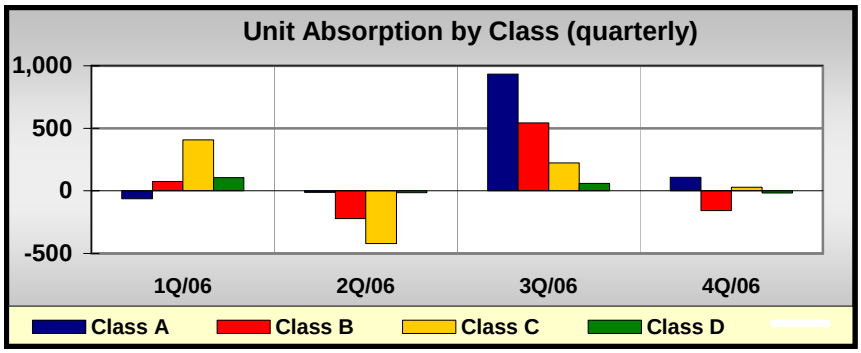
Absorption Trends & Inventory

Metro Absorption Overview

The market reported weak overall demand over the fourth quarter, absorbing -37 units. **Class A** absorption was 109 units over the quarter, bringing annual absorption to 968 units, the highest of any class. After a strong third quarter, **Class B** absorption dipped to -158 units in the fourth quarter; absorption in Class B over the past 12 months is 238 units. **Class C** absorption over the quarter was 30 units, bringing year-over-year absorption to 239 units. **Class D** demand was weak over the quarter, as the class posted an absorption of -18 units. Annual absorption in Class D stands at 133 units. Weak absorption over the fourth quarter brings overall absorption across all classes since this time last year to 1,578 units.



12-Month Ending	Class A	Class B	Class C	Class D	Overall
4Q/04	2,018	1,740	137	-64	3,831
4Q/05	1,266	1,395	756	209	3,626
4Q/06	**968**	**238**	**239**	**133**	**1,578**

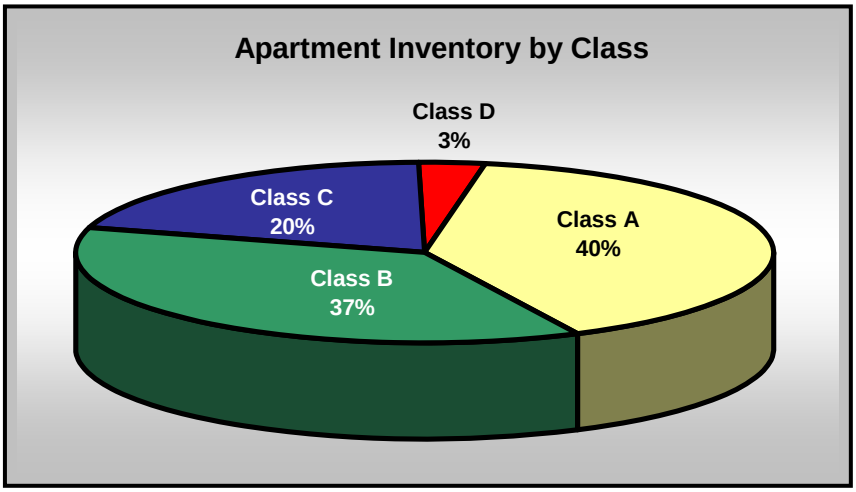
Submarket Performance

Fourth quarter absorption figures for the 22 Austin submarkets were mixed. The **North** submarket posted the highest absorption over the quarter, at 123 units, followed by the **Round Rock** submarket, which posted absorption of 100 units. The weakest demand was found in the **Arboretum** submarket, which absorbed -80 units.

Class A absorption was mostly accounted for by the **North** and **Round Rock** submarkets, which absorbed 140 and 90 units, respectively. Class A absorption was lowest in the **Northwest** submarket at -77 units. The **Wells Branch** submarket was one of the few submarkets to post positive Class B absorption, absorbing 30 units. Class B absorption was weakest in the **Pflugerville** and **South** submarkets, which absorbed -54 and -36 units, respectively. The **South** submarket led the way in Class C, absorbing 97 units over the quarter, while the **East** submarket posted the lowest figures, absorbing -69 units. Of the 7 sectors with Class D units, the **East** and **North** submarkets posted the strongest demand, each absorbing 15 units, while the **South** submarket recorded the lowest figures, absorbing -40 units.

Apartment Inventory

There are a total of 631 operating or under-construction projects (greater than 25 units) in the Austin metro market with a total of 134,779 units. Approximately 40% of the total units is Class A, 37% is Class B, 20% 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	159	49,963
Class B	244	48,547
Class C	176	27,519
Class D	34	3,956
TOTAL**	**612**	**129,839**

Under Cons.	Projects	Units
Class A	13	3,773
Class B *	5	1,021
TOTAL**	**19**	**4,940**

** Class B also includes Affordable Housing developments*
*** There are additional Unclassified (Class U) projects*

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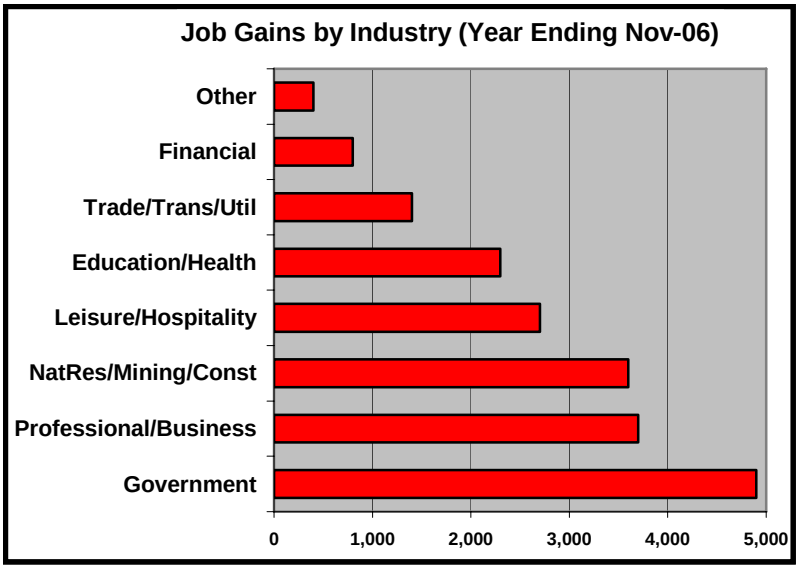
Economic Fundamentals

Job Growth

The civilian labor force unemployment rate in the five-county Austin-Round Rock MSA was unchanged at 3.7%, while the total number of nonagricultural wage and salary jobs increased to 728,100 in November 2006, according to the **Texas Workforce Commission**. This month's total is 19,800 jobs more than at this time last year. Of the nonagricultural employers, the Government sector gained 4,900 jobs over the previous 12 months; Professional & Business Services gained 3,700 jobs; Natural Resources, Mining, & Construction added 3,600 jobs; Leisure & Hospitality added 2,700 jobs; and Education & Health Services added 2,300 jobs. The only industries that did not gain jobs over the year were the Manufacturing and Information sectors, which both remained unchanged over the year. The largest monthly gain was found in the Trade, Transportation, & Utilities sector.

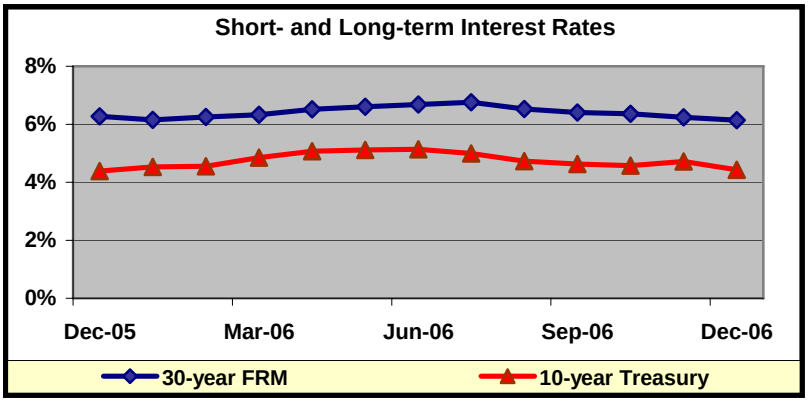


Interest Rates

The yield on the **10-year Treasury** note rose to 4.62% on January 4, 2007, up 0.26 points from its 4.36% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.14% in December 2006. One year ago, the 30-year FRM was at 6.27%. The average for the **15-year FRM** in December was 5.88%, up 0.06 points from a year ago.

The **Prime Rate** in January was reported in the Wall Street Journal at 8.25%, up 1.00 points from a year ago.



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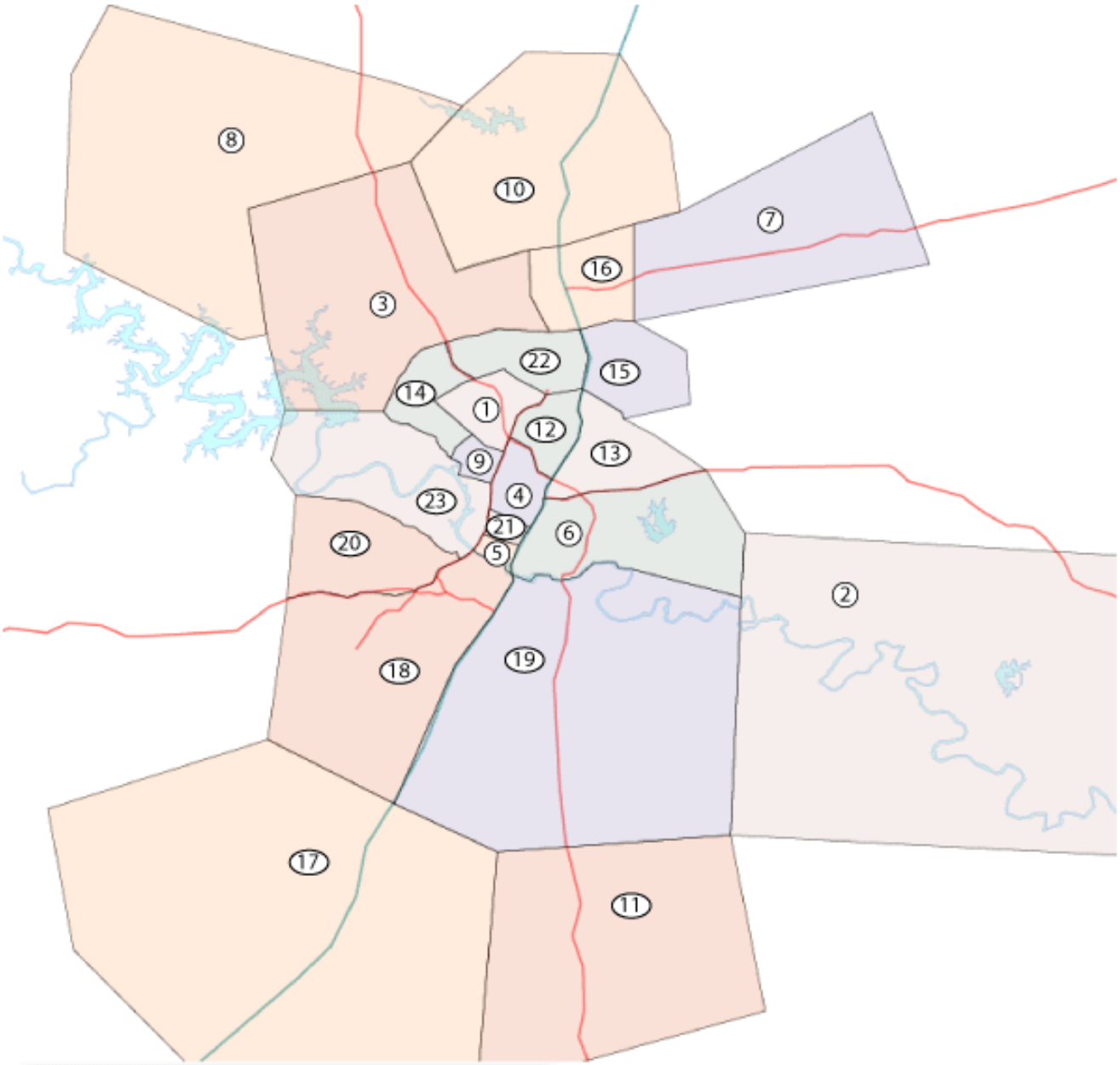
Austin Map



Austin Submarkets

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

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Methodology

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 Bed, 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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