

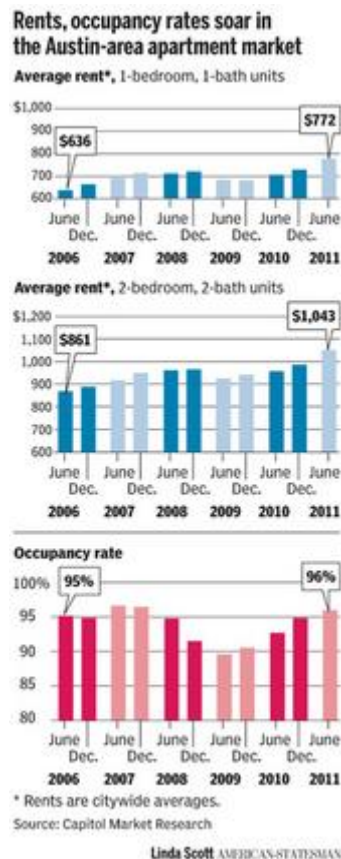
Soaring rents, occupancy rates have Austin apartment market among hottest in nation

By **Shonda Novak**

AMERICAN-STATESMAN STAFF

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With rents at an all-time high and occupancies rising, the Austin-area apartment market is among the healthiest in the nation right now and it could stay that way for a while, national and local real estate experts say.

Thanks to the area's job and population growth and the limited number of apartment units under construction, the Austin market is performing at a level similar to cities like San Jose, Calif.; San Francisco; Portland, Ore.; and Seattle.

"In my 25 years of analyzing the apartment market in Austin, I've never seen things as tight as they are right now," said Charles Heimsath, president of Capitol Market Research, an Austin-based real estate consulting firm.

That's created a favorable situation for landlords — but a challenge for Austin renters like Joshua Love.

Love, an information technology manager, said rising rents will likely prompt him to leave the Woodtrail at Riata complex in Northwest Austin. He's been paying \$586 a month for a one-bedroom apartment but got notice last month that his monthly rent could rise to \$694 a month for a six- to nine-month lease renewal, or to \$840 for a three- to five-month lease and as high as \$890 for a month-to-month renewal.

"I would say shock was kind of an understatement," said Love, 35. But with the complex at 98 percent occupancy, he said, "they can do whatever they want with the rent."

Across the Austin area, rents soared to a record high in June, averaging \$772 a month for a one-bedroom unit and \$1,043 for a two-bedroom, according to Capitol Market Research.

The occupancy rate was 96 percent and could reach 97 percent by the end of the year, Heimsath predicts. That's because only two new apartment communities brought units to market in the first half of 2011, and only three new projects with 839 units combined are scheduled to be completed in the second half of the year, Heimsath noted in a midyear report. Five projects are under construction, with 1,623 units that are expected to be ready next year, Heimsath said.

Several developers are poised to start projects this year or next, including Cypress Real Estate Advisors, Gables Residential, HPI Residential and Grayco Partners.

Taylor Bowen, vice president of development for AMLI Residential, said Austin "continues to be one of our top-performing markets."

Minus concessions, AMLI has seen rent growth of about 6.5 percent this year and projects about 7.5 percent rent growth for 2011 at its seven Austin apartment complexes with 1,700 units.

Bowen said the apartment development pipeline is heating up, and there's stiff competition for sites. The number of units being proposed could be cause for concern "if we hit a severe economic downturn or double-dip recession" and job growth wanes, because "we could be setting ourselves up to where we could start to see an oversupply" of apartments in some areas.

"We think somewhere around 10,000 to 12,000 new starts are being proposed, and we know that that's above the historical norm," Bowen said. He said 7,000 to 8,000 new apartment starts annually is a healthy number for the Austin market.

But for now, the relative limited new supply, coupled with other factors, leads Heimsath to predict that rents will be on the rise for the next 12 to 18 months.

On a per-square-foot basis, overall rents, across all unit sizes, rose 6 percent by June to \$1.04 a foot from 98 cents a square foot in December, Heimsath said.

"I'm not surprised at the occupancy rate," Heimsath said. "I was quite surprised at how quickly the rents had moved up. I expected about a 3 percent increase in rent, and to have an increase of twice that amount was really extraordinary."

Robin Davis, manager of Austin Investor Interests, said in her latest report that rising occupancies and rents at historical highs "point to a market that is currently operating at astounding levels." With rents escalating — Davis said they are up for the sixth quarter in a row — tenants are doubling up, making two-bedroom units the most-requested type, Davis said in her report.

Davis said the Austin area added about 9,200 new jobs from June 2010 to June 2011.

Out-of-state job seekers or employees being transferred also are beefing up the tenant pool, accounting for about 35 percent to 40 percent of the leasing traffic. At least half of those are employed, and the rest have been accommodated by flexible leasing policies, including allowing a renter to provide proof they can pay at least three to six months' rent.

"As many areas of the country continue to stumble out of the recession, Austin's thriving employment market will attract job seekers, providing a boon for local apartment owners," said the latest report by Marcus & Millichap.

Still, with parts of the country having seen substantial depreciation in home values and mounting foreclosures in recent years, "I think there's a lot more uncertainty regarding the purchase of a home as a safe investment," Heimsath said.

But Greg Willett, vice president of research for MPF Research, said he doesn't think there is a basic shift in the desire for homeownership. Rather, lending standards have reverted to historical norms, and only a small share of the population is in their 30s, the prime first-time buying age.

For some, the newer apartment communities can be an attractive alternative to single-family homes, Heimsath said. As rents continue to ratchet up, however, Heimsath expects demand for entry-level housing to accelerate.

Natalie Young, a real estate agent and manager with A+ Apartment Locating in Austin, said renters are seeking apartment-locating services more than ever .

"They are shocked at the increases for renewing their lease, which is causing many of them to move to new apartments and potentially downgrade in both size and quality," Young said.

Love, the Riata tenant, said he's used to seeing \$25 or \$30 a month increases over time as a renter, and never more than \$100 a month. But he said that after the latest rent increases, "I have a feeling I'll be leaving this place one way or another."

snovak@statesman.com; 445-3856