

Equity sells hefty Austin apartment portfolio

Northland picks up 2,985 units for \$270 million; Equity plans to focus on East, West coasts.

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Northland Investment Corp. has become Austin's largest multifamily landlord with the \$270 million purchase of Equity Residential's nine apartment complexes.

Northland said the purchase of Equity's 2,985-unit portfolio makes it the largest multifamily acquisition in Austin's history.

Chicago-based Equity, the nation's largest publicly traded owner and operator of multifamily housing, announced in May that it was leaving the Texas market and selling its Austin portfolio, which is about 90 percent occupied. The firm said at the time that it would be investing in markets with better long-term prospects, mainly on the East and West coasts.

Northland Investment's Northland Fund III has purchased the portfolio, which includes properties in the Arboretum area as well as far North Austin and Southwest Austin. The sale closed Friday.

Austin's healthy job and population growth drew Northland, based in Newton, Mass., to the region, CEO Steven P. Rosenthal said.

"The Austin market has been attractive to a number of industry sectors, particularly businesses in information technology, creating a strong job market and attracting people to the region," Rosenthal said. "Residential properties that are well-managed and maintained will benefit from this growth."

Equity spokesman Marty McKenna said the sale reflects Equity's strategy of focusing on "what we believe are going to be the higher-growth markets in terms of jobs and household formations," as well "supply-constrained" markets where it is more difficult to develop new rental properties.

"We believe that this will lead to better long-term growth for us," McKenna said.

Asked if Equity might re-enter the Austin market at some point, he said: "I could never say never," adding that the company "will continue to always evaluate our portfolios and be in markets that make the most sense long-term."

Greg Willett, vice president of research for M/PF YieldStar, which tracks and forecasts the apartment market nationally and locally, said that Equity's strategy makes sense from the company's standpoint as a long-term holder of properties.

The coastal markets, which get comparatively little new supply, perform more consistently, and "do over time outperform the central part of the country," Willett said. "That just reflects that we build so much in Texas, and that holds down rent growth. In the big picture, your return does tend to be better in San Francisco and Washington, D.C., than it is in most Texas markets," he said, Austin included.

The apartment market in the Austin area is currently overbuilt, Willett said. Central Texas is expected to add 12,810 apartment units through the end of 2009, the third biggest chunk of new supply being added anywhere in the country, Willett said. Dallas/Fort Worth will gain 19,217 units during that time, and Houston, 18,848 units.

For Central Texas, the new supply will mean an 8 percent increase in its apartment stock. "It blows away what any other market in the country is doing," Willett said.

As of June, Central Texas' apartment occupancy was 93.4 percent, down from 95.2 percent a year ago, according to M/PF. Rents are still growing — the average rent rose to \$839 a month in June, up from \$787 a year ago — but rents are rising at a slower pace, Willett said.

In a mid-year survey, local real estate consultant Charles Heimsath said that "unless there is a dramatic surge in leasing activity, occupancy will continue to drop, followed by declines in rent by the end of the year." However, Heimsath predicted that the downturn "will not last very long ... because very few new projects will break ground in the next six months."

Willett disagrees. "It's the amount that's already under construction that you can't get away from," he said. Willett predicted in July that rents here will flatten this year, then decline 3 percent or more in 2009.

Courtesy of JB Goodwin