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Reports: Too many apartments

Decrease in occupancy, surge in concessions expected as Austin fares worse than most

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Austin's apartment market could be heading into troubled waters, two recent reports indicate.

Developers eyeing optimistic job forecasts and tightening restrictions for homebuyers are building an unprecedented number of apartment communities across the area. There are roughly 17,000 new units under construction in and around Austin, the majority of which will come online over the next 12 months, according to the first-quarter Multifamily Trend Report from Austin Investor Interests LLC.

The local apartment sector has fared well in recent years, capitalizing on the area's booming population fueled by a healthy economy. But while rents have increased steadily over the last 12 consecutive quarters, occupancy has remained relatively unchanged at around 93 percent.

"Until now, the number of new-unit deliveries has been nominal at best and countered by conversions and losses to redevelopment," the Trend Report states. But the flood of new units coming online -- roughly 2,500 a quarter -- will outpace demand, leading to a decrease in occupancy and surge in concessions, the report goes on to say.

Another analysis, from Boston-based research group **PPR**, shows that Texas' big cities will account for a staggering 26.4 percent of apartment units delivered in 2008 across the 54 U.S. markets the company tracks. Austin will deliver the second-highest number of units among those markets this year -- an overbuilding factor that could have a dramatic effect on the industry.

"Austin's phenomenal job growth and really strong demographic trends, with a young, well-educated population, have made it an apartment developer's dream," says Aaron Jodka, a real estate economist with PPR. "But with the country moving toward a recession, the delivery timing of these projects is off."

PPR estimates the current Austin apartment vacancy rate at 7.4 percent. **The group anticipates that will rise to just under 10 percent by year-end, which stands to make it one of the harshest occupancy corrections in the country in 2008.**

To lure tenants, a growing number of properties are beginning to offer concessions. At the end of the first quarter, 59 percent of the market was offering some sort of incentive, according to the Trend Report. That figure -- and what exactly is being offered -- is going to climb as more properties open up, with the associated costs making more of a dent in developers' bottom line.

Art Lomenick, managing director of Trammell Crow Co. and president of its wholly owned subsidiary High Street Residential, says overbuilding is ingrained in the real estate development culture of the major Texas markets.

"Austin has always seemed to be the most dramatic at overbuilding," says Lomenick. "In the apartment sector, it's definitely following form. We are probably going to have too many units coming online in the next two years. There's going to be a spike, and that will be an issue."

High Street Residential is developing the multifamily portion of Midtown Commons, the 72-acre, mixed-use project near the new Crestview Station commuter rail stop on North Lamar Boulevard. The first 317 apartments of what could eventually be about 1,000 units will be complete in February 2009.

Lomenick says while Central Austin is seeing a good bit of new product, the vast majority of construction is happening in the outlying parts of the city and in the suburbs, where entitlements are easier to obtain. As demand grows for in-town living, he says it's those suburban properties that are going to suffer most.

"Our whole focus on the multifamily end is transit-oriented development," says Lomenick. "We're trying to deliver these lifestyle options to people as energy issues and traffic issues keep getting worse."

Jodka of PPR says with development happening all over town, there don't appear to be any submarkets that will be immune to the occupancy decline, but he agrees that anything developers can do to set their properties apart from the pack is likely to help.

Meanwhile, investor interest in Austin's multifamily market has not slowed. Seventeen properties changed hands in the first quarter alone, according to the Trend Report, and more than 90 are currently on the market.

Courtesy of JB Goodwin