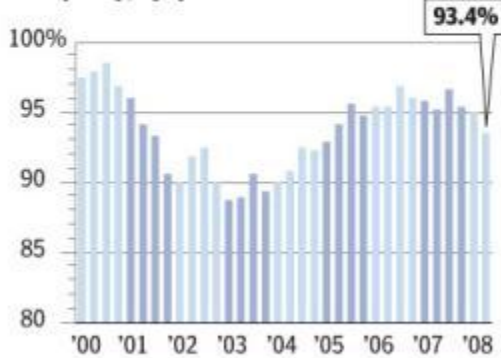


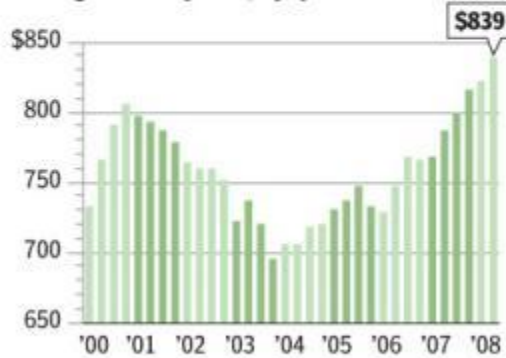
## Area apartment market at a glance

Austin-area apartment occupancy is heading down, according to a new industry report. But rents are still up.

**Occupancy, by quarter**



**Average monthly rent, by quarter**



Source: M/PF YieldStar

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With the Austin area expected to add 12,810 apartments by 2009, including the 31-story, 187-unit Legacy on the Lake at left, industry researchers predict occupancy rates and rents will fall. But a Legacy development executive doesn't foresee any trouble getting the downtown building leased.

# Austin apartment glut, rent cuts predicted

**Others, however, say market -- especially for high-end, downtown units -- will stay healthy.**

By [Shonda Novak](#)

AMERICAN-STATESMAN STAFF

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Too many apartments are being built across the Austin area, and that means some tenants can expect rent discounts and other concessions by year's end.

**That's according to apartment industry research firm M/PF YieldStar, which shows June occupancy at 93.4 percent, off 1.5 points since March and 1.8 points from mid-2007. The decline is especially worrisome for landlords, coming during prime leasing season, said Greg Willett, the firm's vice president of research.**

"I think it's time to raise the flag," Willett said. "I don't think people have realized how big a hole we're about to dig for this metro."

**Willett says occupancy is headed down and predicts rents will flatten this year, then decline 3 percent or more in 2009.**

"The market remains in decent shape for the moment, but it's concerning that the loss of momentum is so pronounced," Willett said. "Plus, with so much additional product now under construction, it's pretty easy to see the headlights of that train bearing down on you."

**Austin is on track to add 12,810 apartment units through the end of 2009, according to M/PF. That's the third biggest block of new supply on the way anywhere in the country, trailing only the 19,217 units under construction in Dallas/Fort Worth and the 18,848 units under way in Houston, M/PF reports.**

Willett said the Austin area needs about half as many units as are now under construction based on current demand, which he says has been sluggish. He said there are 1,070 fewer occupied apartments now than at the start of this year. He predicts it will take two years for Austin to burn off its excess supply "if you stop building right now."

Willett says his forecast of a glut applies citywide, from downtown to the suburbs.

But Spencer Stuart, an executive with the developer building the 31-story Legacy on the Lake apartment tower on downtown's eastern edge, said leasing activity is strong in and near downtown, as well as areas closer in.

"We're seeing strong demand in the urban cores of all the markets we're in," said Stuart, senior managing director of Legacy Partners Residential Development Inc., a Foster City, Calif., firm with upscale apartments in states including California, Arizona, Colorado and Washington.

Legacy entered the Austin market in 2006 with it and Capmark Financial Inc.'s acquisition of the 2,044-unit Riata apartment community in Northwest Austin.

**Riata was 97.1 percent occupied by the end of June, up from 89.8 percent as of Jan. 1, Stuart said.**

Stuart predicts properties like Riata and the upscale apartments at the Domain in North Austin and in the downtown market are "going to do very well."

Also, rising gas prices "bode very well for the downtown market and for properties that are clustered in around a lot of the jobs, like the Arboretum," Stuart said. "If you can walk to your job, you can pay more for rent, and your lifestyle got better because you're spending less time commuting and more time working or playing."

But Willett stands by his forecast, contending that the Austin metro area, which "ranked as the star apartment market performer in Texas over the past few years ... is losing its luster."

He thinks the market will bottom out by the end of 2009 before occupancy begins ticking back up.

"As more and more of this product gets completed, you're going to start seeing the rent discounts kick in, and we're going to be in an incredibly competitive leasing environment in Austin," Willett said.

**Rent growth already is slowing. Rents rose 3.6 percent from June 2007 to June 2008, compared to a pace as high as 6.1 percent during 2007, according to M/PF. The average monthly rent is now \$839, up from \$787 in June 2007, M/PF said.**

Willett expects rents to be flat this year, as occupancy dips another 1.5 percentage points during the next 12 to 18 months. By year's end, he said, close to half of the apartment communities will be offering anywhere from a month to a month and a half of free rent.

"The leasing environment looks like it will be especially competitive at the top end of the market," Willett said. "Discounting probably will be rampant at the new communities in initial lease-up, and that seems apt to preclude any rent growth for the market as a whole."

Stuart thinks Willett will be proved wrong about the Austin market. He said he isn't worried about leasing up the 187-unit Legacy on the Lake, formerly Legacy@Town Lake. And the company is looking for a site for a second project, perhaps four stories tall, "as close to downtown as possible."

"We know there's a strong demand for the downtown lifestyle," Stuart said, adding that demand has been well established in the Rainey Street area, where the Legacy project is rising, with the selling out of nearby condominium projects like Milago and the newly built Shore.

Rents at Legacy on the Lake will range from \$1,331 a month for a 659-square-foot unit to \$6,931 a month for the four penthouses with 2,876 square feet, Stuart said. Leasing is expected to begin in August, with the first tenants moving in in October.

Stuart said Legacy could command — and get — higher rents for its downtown project but is sticking with the ones it initially projected in order to lease the building quickly.

**At the new 29-story Monarch apartment tower on downtown's west side, 25 percent of the 305 units are occupied, and the building is 45 percent leased, representatives say.**

Units rent from \$1,333 a month for a 681-square-foot unit to \$12,935 for the largest penthouse, with 3,530 square feet.

Monthly rents average \$2,100 to \$2,300 for the most popular one-bedroom, with about 1,100 square feet, and rents start at \$2,630 for the most popular two-bedroom, with about 1,400 square feet.

Tenants include young professionals, entrepreneurs, executives, professors, a state senator, and transplants from New York and the West Coast, as well as people who plan to buy units in condominium projects now under construction downtown, representatives said.

**Courtesy of JB Goodwin**