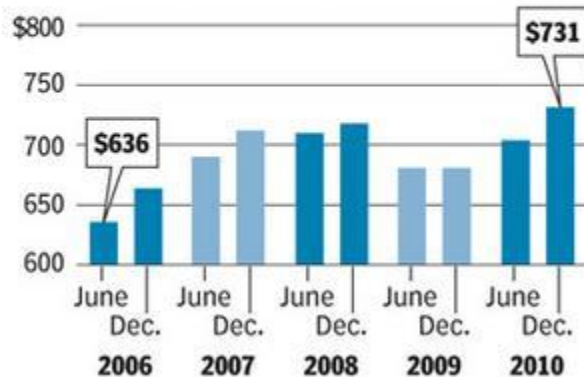


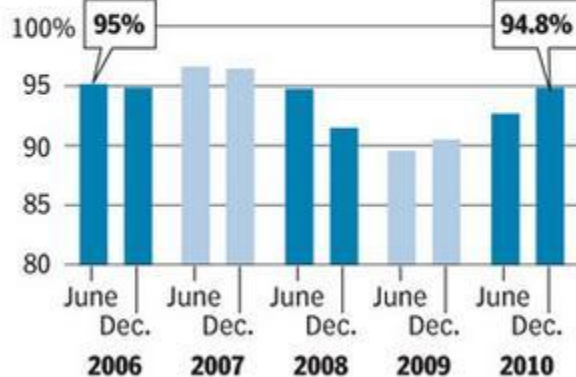
## Apartment market tightens

A recovering apartment market has average rents in Austin at an all-time high. The average rent per square foot has risen from 87 cents in June 2006 to a record 98 cents in December 2010. More increases are expected as Austin's population continues to grow and job growth speeds up.

**Average rent\*, 1-bedroom, 1-bath units**



**Occupancy rate**



\* Rents are citywide averages.

Source: Capitol Market Research

Linda Scott AMERICAN-STATESMAN

## Apartment market rebound good news for landlords, but tenants face higher rents

By [Shonda Novak](#)

AMERICAN-STATESMAN STAFF

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Last year marked a turnaround for the apartment market in the Austin area; rents and leasing activity rose to their highest levels on record. Real estate experts say 2011 will be another strong year, as job growth, newcomers moving to the area and scant new apartment construction push rents higher this year and next.

That's great news for landlords, but not for tenants, who are facing hefty rent increases.

AMLi Residential, a major apartment owner in Austin, expects market-rate rents to increase from 4 percent to 12 percent this year in most of its 11 markets and 65 communities in the U.S. Austin is AMLi's strongest market now.

CEO Gregory Mutz anticipates that AMLi's eight Austin properties will have market-rate rent hikes of 7.5 percent to 8.5 percent.

"Austin is doing very well, and our downtown properties are doing extremely well," Mutz said.

"There are a number of positive forces at work — job growth, household formations, positive demographic trends, a greater propensity to rent versus buy, and the fact that there are currently very few new apartment units being delivered as new supply this year," he said.

Regionwide, rents began rising in the second half of 2010 and will continue climbing for the next two years, said Greg Willett, vice president of research for MPF Research, which tracks the apartment market.

"Obviously we think this year is going to be phenomenal for the market," Willett said. "Renters need to be pushing for longer leases" to protect themselves against increases, he said.

The apartment market for the U.S. as a whole "is back in a big way," Willett said.

"If you had to pick a half-dozen markets that are on everyone's radar list, Austin is one of them. Everybody wants to buy or build something in Austin because the outlook is strong," he said.

In another sign of a rebound, Holliday Fenoglio Fowler, the Dallas-based mortgage banking firm, is opening an Austin office to concentrate on apartment investment sales, mainly in the Southwestern U.S.

An affiliate of San Antonio-based USAA Real Estate Co. recently joined with Gables Residential, which has several projects in Austin, to develop and acquire more than \$400 million in apartments around the country.

This spring, San Antonio National Bank will open an Austin office, looking to lend money to investors acquiring or refinancing apartment complexes with stable occupancies and positive cash flow.

Several apartment developers, including Colonial Grand Partners and Simmons Vedder Partners, say they expect to start new projects in Austin later this year.

Charles Heimsath, a real estate consultant, said an apartment recovery that began in 2009 and accelerated into 2010 is expected to continue into next year.

Heimsath, president of Capitol Market Research, said rents citywide rose by late 2010 to an average of 98 cents a square foot, the highest ever. That amounts to \$731 a month for the average one-bedroom apartment and \$989 for the average two-bedroom unit.

Heimsath's survey, conducted twice a year, covers a total of 147,000 units, including 1,867 in the downtown area. While the newer luxury downtown units have high rents, they are not the only reason for the overall market increase, Heimsath notes.

Austin ended 2011 with a record 8,773 more apartments leased than at the end of 2009, Heimsath said.

**Citywide, occupancy hit 94.8 percent by late 2010, a level not seen since late 2007 and up from 90.4 percent at the end of 2009, he said. "This is just phenomenal. It's amazing how rapidly the market recovered," he said.**

"A lot of it is the demographics, and the movement of the younger age population of Austin to take a job, or to find a job, or in some cases to just hang out," Heimsath said.

Keeping pace

Another factor is slower home sales, because of in part much stricter mortgage lending criteria for prospective buyers.

Historically, half of the turnover in apartment rentals is from tenants buying a home and moving out.

But a shrinking pool of borrowers qualifying for home purchases has helped push up apartment occupancies, and consequently rents, Heimsath said.

A lack of new apartment construction amid rising demand also is driving up rents.

This year, only two new projects will come on line: MLK Station, off East Martin Luther King Boulevard, containing 150 below-market units in a tax credit project by Foundation Communities, and the 240-unit Village of Little Texas, a project with market rate and subsidized units in South Central Austin.

Several planned projects are preparing to launch this year.

One is Colonial Grand at Cityway, on about 24 acres on South First Street at FM 1626. Colonial Properties Trust plans 296 units in 18 buildings, with construction expected to start this spring, after city approvals are obtained, said Jim Spahn, a spokesman for the Birmingham, Ala.-based apartment developer, which now has nine apartment projects in the Austin area.

The first units would be ready in early 2012. Monthly rents would range from the high \$800s to the upper \$1,200s, Spahn said.

Colonial likes the location, which is near major highways, including Texas 130, and the Austin market.

"Austin is experiencing positive job growth, and unemployment is low comparably, " Spahn said. "And there's a large concentration of prime renters, 20- to 34-year-olds."

More apartments also are headed to the Mueller development.

Simmons Vedder Partners probably will start construction in the third quarter of this year on a complex with 301 upscale apartments next to their existing 440-unit Mosaic project, said Rick Craig, a partner with the multifamily development firm, which has offices Austin and Houston.

The first units will be ready for residents around December 2012; the project is expected to be finished in the second quarter of 2013.

"We think that by the time we can deliver the first units, the market will be quite tight," Craig said.

Though construction financing is not yet lined up, "there appears to be a strong interest from our banks and equity partners," he said.

Simmons Vedder this year also will begin looking at the prospect of more apartment development on the remaining 1.5 acres it owns at the Triangle project in North Austin.

#### Available money

While the outlook remains uncertain on the construction financing side, one bank is stepping into Austin, ready to lend money to people wanting to buy or refinance apartment projects that are fully leased and profitable.

"Austin is a key part of our strategic plan," said Robert Greenwood, chief lending officer for San Antonio National Bank. "It's as dynamic of an area as anywhere in the country. We think it's so critical for our bank to have a major presence there."

San Antonio National Bank is a community bank with \$225 million in assets and branches in Central and South Texas, said Guy Bodine, the CEO and president.

The bank has reserved about \$15 million for multifamily financing in Central and South Texas in the next few months, \$3.5 million of which has been spent on two loans so far in San Antonio.

Bodine said apartment vacancy rates and rents are improving in the Austin area, "and it is a market at the beginning of a rebound."

In East Austin, AMLI says its 375-unit AMLI South Shore at East Riverside Drive and South Lakeshore Boulevard, is 62 percent leased. The first residents moved in last spring, but construction wasn't wrapped up until December.

The complex has two swimming pools, a 24-hour fitness center, a rooftop deck, a dog park and views of Lady Bird Lake and downtown.

The street level retail space is filling up too, with tenants such as Radio Shack and Draft Pick, a sports bar and restaurant set to open in March.

Rents for the smallest studios, 569 square feet, start at \$997 a month. The smallest one-bedroom, 714 square feet, starts at \$1,193, while rents for the largest two-bedroom units start at \$1,530 a month.

With a lack of new apartment supply this year, coupled with healthy demand, rents are expected to move back toward the levels they were at the peak in 2007, and to ultimately reach and surpass 2007 rental levels by 2012, AMLI's Mutz said.

Experts note that Austin's apartment market turns quickly in its boom-and-bust cycles, and Mutz agrees.

He said AMLI's two downtown projects got clobbered in 2009, as rents were adjusted downward by about 16 percent to keep occupancy up during the recession competition from new properties and during disruptions from downtown construction.

The market remained challenging through early 2010, but by midyear, the downtown market had stabilized and then "went from being one of AMLI's toughest submarkets to being one of our best" with occupancy rates now in the high 90s , Mutz said.

"For at least the next few years, Austin will perform very well and be a great market in which to be an owner, manager and developer," Mutz said.

**Courtesy of JB Goodwin**