

Vacancies prompt extended Austin renters market

Building boom, economy contribute to declining apartment occupancy

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A faltering economy and an ill-timed apartment construction boom in 2008 have created a renters market in Central Texas that's likely to continue through the end of the year.

The occupancy rate among Austin-area apartment complexes fell from 96.6 percent in 2007 to **91.4 percent at the end 2008**, resulting in the highest vacancy rate since 2004, according to Capitol Market Research.

"It's a pretty major drop," said the firm's president, Charles Heimsath.

The citywide average rental rate for a two-bedroom, two-bathroom apartment increased slightly to \$962 in 2008, but Heimsath said that's because many of the new properties that opened last year were high-priced complexes downtown and near the University of Texas. Those properties commanded rents significantly higher than the citywide average, pulling up the overall numbers.

Rents actually declined slightly year-over-year for apartment complexes that were already open by the end of 2007, he said.

Heimsath expects a drop of another 2 percentage points in occupancy and 5 percent in rental rates in the next year before the market improves in 2010.

Apartment developers delivered 8,404 new units to the market last year, the largest number since 2002.

The timing couldn't have been worse for landlords, who already were seeing demand decline because of slowing job growth.

Austin's job growth declined to 1.6 percent year-over-year in November, according to the Texas Workforce Commission, about half the rate of the previous few years.

Greg Willett, vice president of research for M/PF YieldStar, said an unusually high number of people moving out of apartments late in the year suggests that those numbers are overly optimistic.

"I think Austin has moved into at least slight job loss, though probably not a huge number yet," he said.

Apartment construction will slow significantly this year, but about 2,000 additional units are expected to be completed.

Willett thinks occupancies will drop further in the Austin market this year, resulting in "pretty major rent cuts," though he declined to give numbers.

"You've got to work through all of that new supply coming on, and that's going to be really difficult if Austin's not creating jobs," Willett said.

Heimsath said some new complexes are offering between one and three months of free rent on leases longer than a year, and older properties likely soon will offer similar concessions.

Spencer Stuart, senior managing director of Legacy Partners Residential Development Inc., said leasing is strong at the 31-story Legacy on the Lake Apartments, which is under construction on Lady Bird Lake.

Rent concessions are being made to people moving in while construction is ongoing, but Stuart expects that to end when the building is finished in the next few months.

He said 20 percent of the 187 units have been leased.

The average rent is \$2,300 a month for a unit averaging 1,130 square feet.

"We're still seeing fairly strong interest and demand, and our leasing is going quite well downtown," he said. "The music is still playing, and people are still coming around. That could all change tomorrow, but today it's good."

Legacy Partners also owns the 2,044-unit Riata apartment community in Northwest Austin, which is 95 percent leased.

"At Riata, our traffic has slowed down a little, but a higher percentage of that traffic is leasing," Stuart said.

Stuart said Legacy has no plans to increase rents this year as it did in 2008, and though concessions aren't being offered to current or potential tenants today, he said it is a possibility if the market turns.

Courtesy of JB Goodwin