

Area's apartment market still sizzling

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As an apartment locator, Lisa Sanders encounters the Austin area's rental squeeze on a daily basis.

Sanders, who works for All Austin Apartment Locating, recently went to show an apartment near Capital of Texas Highway (Loop 360) and RM 2222. Despite having called beforehand, the unit had leased by the time she and her client got there within an hour.

"It was a two-bedroom with a garage, for \$1,209 a month, and it leased within minutes," Sanders said.

That's just how hot the Austin-area apartment market is these days, as heightened demand due to job and population growth and a lag in new projects have combined to make it the hottest sector of the commercial real estate market.

The Austin-area apartment market has been on a hot streak for at least 18 months, and while the rush for rentals is making for happy landlords, tenants are feeling the pinch in their pocketbooks, with rents hitting an all-time high.

The trend is expected to continue this year, experts say, as it will take time for supply to catch up to demand, even though the development pipeline for Central Texas is bulging with 10,000 to 12,000 planned apartment units as developers rush to fill the void.

MPF Research, which tracks rents and occupancies in Austin and other markets, says the local apartment market will be the nation's No. 2 performer this year based on projected increases in rents and occupancies, just a tad behind San Francisco.

In 2011, MPF says, Austin ranked No. 6 among major U.S. markets based on its 7.2 percent increase in rent prices, trailing San Francisco, San Jose and Oakland in California, and Boston and New York. Nationwide, rents rose an average of 4.7 percent, MPF says.

Local real estate consultant Charles Heimsath, president of Capitol Market Research, predicts that the Austin area apartment market will be on the upswing for at least another 24 to 36 months. Heimsath's data, which tracks 145,000 units in Austin and other areas, including Round Rock, Pflugerville, Cedar Park/Leander and Kyle, **shows that the region ended 2011 with 95.9 percent of its apartments occupied, up from 94.8 percent at the end of 2010.**

The all-time high — 97.6 percent occupancy — was reached in December 2000, Heimsath said.

Average rents across all unit types — one-, two- and three-bedrooms — climbed 7 percent last year to \$913 a month, compared with \$853 in 2010. Rents for one-bedroom units saw the biggest jump, soaring to \$878 a month as of December, compared with \$731 at the end of 2010, Heimsath said.

MPF forecasts rent growth of about 5.5 percent in 2013 and about 4 percent in 2014.

MPF forecasts that the Austin area will have demand for about 4,800 apartment units this year. About 3,100 new units are expected to be completed this year, followed by 4,900 in 2013, Heimsath's figures show.

Thousands more units are in the planning stages, but experts caution that some of those projects could have problems obtaining financing.

"The underwriting requirements are beginning to relax a little, and there's more money interested in investing in Austin, so things are loosening up, but they're still very difficult," Heimsath said.

AMLI Residential, a major player in the local apartment market, is budgeting for rent growth of 5 to 6 percent across its Austin properties, said Taylor Bowen, vice president of development.

"We predict Austin will be our top-performing market in 2012 based on our rent growth projections," Bowen said.

Planned projects

In Austin, the south-central part of town is hardest hit by the rental squeeze, said Sanders, the apartment locator specialist. And that's exactly where a number of developers — including the Hanover Co., Ardent Residential and Greystar — have zoomed in, with plans calling for 942 apartments on South Lamar Boulevard, south of downtown and Lady Bird Lake.

Greystar is planning a 400-apartment project at the shopping center that houses Alamo Drafthouse. Ardent's project, planned for the southeast corner of Lamar and Gibson, is slated for 202 apartments. Ardent plans to break ground by the end of this month.

Farther south on Lamar, Post Properties is building a complex that will have 298 units, the first of which are due to open late this year.

In September, the Hanover Co. plans to break ground on an upscale apartment project just south of the popular Uchi restaurant.

Hanover's development would have about 340 apartments, with average rents of \$1,700 to \$1,800, said David Ott, development partner with Houston-based Hanover. The first units are expected to open in spring 2014, Ott said.

Hanover is confident it will obtain financing, Ott said.

"There was no new supply in the central submarket last year," Ott said, and only one project — Post's on South Lamar — will bring units to market this year. New supply also will be limited in 2013 in the area, he said.

"This is good news for continued strengthening of occupancies and rents in that area; however, oversupply is a real risk starting in 2014 and 2015, depending on how many of the pipeline deals actually get done," Ott said.

Ott said location and product quality will be critical to the success of any project planned in Austin. Those two factors helped Hanover achieve the highest rents in the city, at its downtown apartment tower, the Ashton. The high-rise is 95 percent occupied, with rents averaging about \$3,400 a month, Ott said.

On South Lamar, Hanover expects the proximity to Lady Bird Lake, high-end finishes and skyline views will all be selling points, Ott said.

City's a hot market

The region's job and population growth are among the factors fueling demand for apartments, experts say.

Sanders said about 60 percent of her business is from people relocating to Austin "from all over the world" because of the job market.

Nationally, the U.S. apartment market also is robust.

"While apartment demand has cooled off a bit from 2010's incredibly large volume, it remains very strong," Greg Willett, vice president of research and analysis for MPF, said this month. "Most of the jobs being formed are going to young adults, who tend to be renters. At the same time, loss of renters to (home) purchase continues to run far below the historical norm.

"Those factors are combining to produce demand far in excess of the limited deliveries coming on stream right now, especially when today's completions are heavy on niche product such as affordable housing, seniors housing or student properties, rather than conventional, market-rate apartments."

Those same demand generators are true for Austin as well as the nation, Willett said.

"Mortgage lending requirements are a big factor in the limited volume of home sales," Willett said. "Also, would-be buyers just aren't yet sure that we're at the bottom on (home) pricing."

The relatively few newly built projects in the Austin area are leasing fast.

At the Retreat at North Bluff, which began leasing units in December 2010, all 240 apartments were rented by midsummer of 2011, said Christa Wilson, the property manager. As of late last week, about 20 people were on a waiting list.

Since opening, "we've never gone below 99 percent occupied, which would be three vacancies," Wilson said.

Monthly rents range from \$765 for a one-bedroom unit to \$1,115 for a two-bedroom. The project includes some units at below-market rents, which range from about \$400 to \$600 a month.

Xuan Le Redding, leasing and sales manager with JB Goodwin Realtors, said it's not uncommon for a prospective renter to face multiple offers for a unit. She encourages her clients to fill out their applications in advance so they don't lose out. One client found an apartment he wanted, but by the time he went back the next day to fill out an application, two other applications had come in.

Karla Cavazos also wasn't prepared for what she encountered in her apartment search. Cavazos recently moved here from Dallas to start a job as an oncology sales representative with a diagnostic company.

Cavazos hit a few snags in her search, finding that either the move-in date didn't work or there was a waiting list.

"I was really surprised with the market," she said. "The city seems to be booming."

How long will the apartment boom last? Heimsath predicts another two to three years, though Austin's apartment market is known for turning quickly in its boom-and-bust cycles .

Brett Denton, a principal with Ardent, said that although there has been a lot of discussion about overbuilding, the "projected deliveries will be spread over a number of years."

Financing also will serve as a check-and-balance on the amount of new apartment construction, developers say.

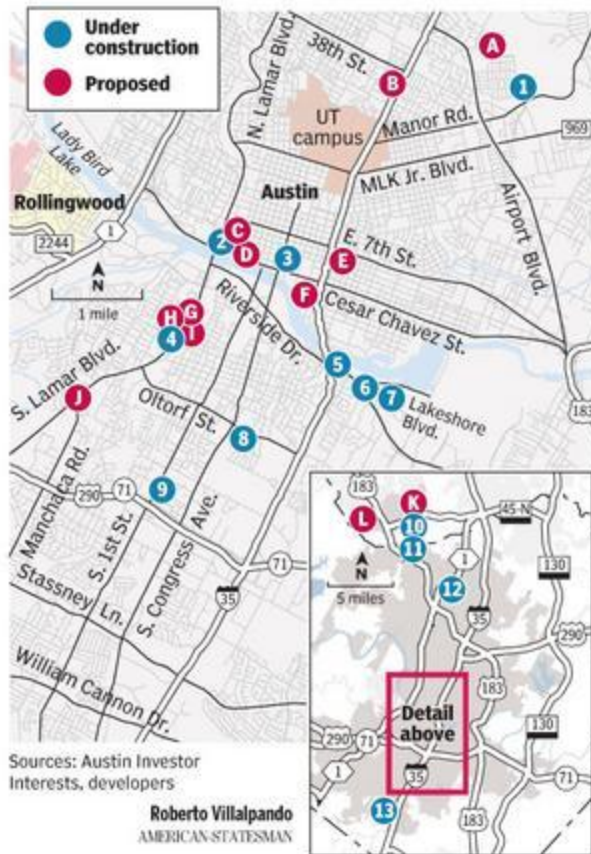
"Obtaining debt and equity financing for projects is still quite challenging as lenders and bankers watch the European capital markets," Denton said. "This situation will not be resolved soon and will serve to limit capital that will fund new supply in the near-term."

Courtesy of JB Goodwin

Under construction

- 1 Wildflower Terrace**
 - Units: 201
 - Status: first phase (24 units) opened in December; second phase (96 apartments) ready for leasing at the end of January; final phase, 81 units, will be completed in mid-February.
- 2 Gables Park Plaza II**
 - Units: 222
 - Status: first units ready in third quarter 2013
- 3 Third and Brazos**
 - Units: 277
 - Status: opens spring 2013
- 4 Post South Lamar**
 - Units: 298
 - Status: first units ready in late 2012
- 5 RiverView**
 - Units: about 300
 - Status: projected completion in fall 2013
- 6 South Shore District**
 - Units: 1,200 total (508 in first three phases)
 - Status: first 250 units started in December; other phases starting in February (162 units) and April (96 units)
- 7 Lakeshore Apartments**
 - Units: 230
 - Status: first units ready in January 2013
- 8 The District at SoCo**
 - Units: 215
 - Status: first units ready midyear
- 9 Oak Meadows**
 - Units: 335
 - Status: first units ready January 2013
- 10 Camden Amber Oaks**
 - Units: 244 in second phase
 - Status: opens in March

Apartment developments in the Austin metro area



- 11 Promesa**
 - Units: 289
 - Status: opens by midyear
- 12 Domain**
 - Units: 543
 - Status: first phase opens in August
- 13 Colonial Grand at Double Creek**
 - Units: 296
 - Status: opens early July

Proposed

- A Mueller Phase II**
 - Units: 301
 - Status: first units ready early next year
- B University Park**
 - Units: 298
 - Status: construction to start March 1; first units ready in April 2013
- C Bowie and West Fifth streets**
 - Units: 350
 - Status: projected start third quarter of this year
- D Green Water Treatment Plant**
 - Units: 535
 - Status: projected to start late this year
- E Corazon**
 - Units: 256
 - Status: May 1 projected start; first units ready in June 2013
- F SkyHouse Austin**
 - Units: 320
 - Status: projected spring start
- G Hanover South Lamar**
 - Units: 340
 - Status: projected September start
- H Greystar Apartments at Lamar Square**
 - Units: about 400
 - Status: no projected start date
- I Gibson Flats**
 - Units: 202
 - Status: construction to start by the end of this month
- J Lamar and Manchaca apartments**
 - Units: 340
 - Status: projected June 1 start; first units ready July 2013
- K Davis Springs**
 - Units: 334
 - Status: scheduled to start in April or May
- L HPI Residential's Northwoods apartments**
 - Units: 325
 - Status: scheduled to start in March