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It's official: It's a renter's market

Apartment owners forced into freebies

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Rebecca Smith has seen it before: Both the numbers of renters and apartment hunters have been steadily dwindling for the 297-unit apartment complex she manages near East Oltorf Street.

"It's been going on for the past nine months to a year," Smith said. "It was the same way in 2003."

Smith, who manages Woodmeade Apartments, isn't alone. Apartment complexes all around Woodmeade sport banners and balloons touting move-in specials and concessions meant to lure renters as the number of units — and the competition for tenants — increases citywide.

Both occupancy and rents declined during the first six months of 2009 for the Austin metro area, a first in several years, according to research from Capitol Market Research.

While occupancy has been steadily declining for the last year and a half, this is the first overall drop in rents since 2004, said Charles Heimsath, president of Capitol Market Research.

"The interesting thing to me wasn't that [rent and occupancy] dropped. We've been seeing steady declines in occupancy for a couple years. But we didn't reach the tipping point where we moved from landlords' market to tenants' market. On a citywide basis, we've now done that," he said.

According to Capitol Market Research's report, occupancy for the first half of the year fell from 91.4 percent at the end of 2008 to 89.5 percent in June. Rents dropped from 97 cents per square foot in December to 93 cents per square foot in June.

A large part of that has to do with the number of units that came online during the first half of the year — almost 5,000 new units, according to the report. Only 1,867 were leased during that period.

"Any time your unit deliveries are more than twice what absorption is, then you're obviously going to see a drop in occupancy," Heimsath said. "That is probably one of the highest six-month periods of delivery that we've seen in the last 10 years."

Typically, the area sees about 5,000 units added per year. And almost 3,000 more will likely come online before the end of 2009, Heimsath said, which could lead to further softening in rents.

In 2010, however, new unit deliveries will probably slow quite a bit because financing is still difficult to secure.

There are some exceptions to the overall declines in occupancy and rent during the first six months. Heimsath said Central Austin saw a shallower decrease in those numbers, and in San Marcos occupancies and rents increased during the first half of the year, largely due to the university population there.

According to six-month research from Smart Locating Corp., which also researches the apartment market, the University of Texas campus area has also seen an increase in occupancy, although average monthly rental rates there dropped about \$54. According to that report, the largest decreases in rent and occupancy in the first half of the year took place in Southwest Austin.

Higher-end apartments, which are mostly concentrated in Central Austin, are still able to charge higher rents, Heimsath said, although that may change in the next few months.

The area's overall apartment market could bounce back quickly, though, he said, because job growth here is relatively strong.

Meanwhile, managers like Smith continue to focus on the residents who are already in place, since much of her apartment's traffic comes from resident referrals.

"I think the more apartment complexes take care of who lives here now, the better the occupancy levels will be," she said.

Courtesy of JB Goodwin