AUSTIN APARTMENT MARKET

2016 Year-End Survey

CAPITOL MARKET RESEARCH

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Rental rate increases slowed in the last half of 2016, remaining at $1.39 per square foot. Although occupancy fell slightly, to 93.8%, absorption has remained strong.

The rapid increase in rents abated in December 2016 due to the large number of new properties that are offering concessions. December rents remained at $1.39 per square foot, while citywide occupancy declined slightly to 93.8%, dropping from 94.0% in June 2016. Thirty-nine new (2016) communities have brought units to the market in the last six months, adding a total of 5,476 new units since June. Despite the declining occupancy rate, absorption has remained strong, ending the last six months of 2016 with 4,577 units.

Rental rates were stable or increased slightly in seven of the twelve market areas. The highest rate of increase, 2.90% was seen in the East market area. Citywide, the average rate stayed the same, at $1.39. All thirty-nine apartment communities that delivered units throughout 2016 (one high rise, eight mid-rise, and thirty garden style) are leasing, on average, for $1.61 per square foot, approximately 15.8% higher than the citywide average.

Five market areas saw a slight increase in occupancy rates, even as multiple projects added new units to the inventory. Seven market areas saw slight occupancy declines, three with less than a percentage point change of (-1.0) and three experienced a larger decline, as East dropped by (–2.9) points, Round Rock dropped by (–2.4) points, and Southwest saw a (–3.2) decline. In each area, unit additions exceeded absorption by more than 300 units. The overall occupancy rate decreased just slightly, from 94.0% to 93.8%, as 41 projects with 9,222 rentable units are still in “lease up”. Occupancy for all for new (2016) projects is currently 73.8%, however, the occupancy for the twenty-four new projects completed and stabilized earlier in 2016 is 94.9%.

The first six months of 2016 saw the completion of twenty-four properties, delivering 3,257 units to the market, while sixteen projects continued their construction, adding 2,431 rentable units by the end of June 2016. In the last six months of 2016, fifteen projects that started delivering units in the first six months of 2016 completed construction, adding 2,244 units , while ten new projects opened and delivered all their units between June and December (1,542 units). In addition, there are fourteen projects under construction that have delivered a total of 1,690 rentable units.

Absorption during the first half of 2016 was 4,193 units, which increased over the last six months of 2016, with 4,577 units absorbed. The region absorbed a total of 8,770 units between December 2015 and December 2016, the third highest annual rate of absorption since 1991.

As noted above, occupancy dropped slightly to 93.8%, while average rents have remained steady. While occupancy declined slightly, absorption continues at an even pace of 730 units per month. Construction costs continue to rise making it more difficult to underwrite new deals, which will eventually affect the number of new units delivered. In the short term, with more than 14,000 units under construction, some parts of the region will experience temporary overbuilding, continuing the dominance of rent concessions seen at new projects in most market areas.