AUSTIN APARTMENT MARKET

2017 Year End Summary

CAPITOL MARKET RESEARCH

1102 West Avenue, Ste. 100, Austin, Texas 78701, Ph: (512) 476-5000, email: cheimsath@cmraustin.com

Rental rate increases have halted, ending December 2017 at $1.39 per square foot. Occupancy has declined to 92.2%, as more than 10,000 units were added to the Austin area for the second year in a row.

The current December 2017 average rent per square foot, $1.39, dropped (-1.42%) from $1.41 in June. Citywide occupancy continued to decline, reaching 92.2% in December, down from the 93.3% reported in June 2017. Forty-nine new (2017) communities have brought units to the market in the last six months, adding a total of 6,594 new units since June. Only 11.4% of those units were in the "Central Core", which reflects a continuing shift of new construction into the more suburban markets surrounding Austin. This trend is due in part to the high cost of land and the lengthy and expensive City of Austin review process. Citywide, absorption has increased through the last six months of 2017, (3,502 units).

Rental rates decreased in all market areas, with the exception of two suburban markets, Georgetown and San Marcos. The largest decrease (-3.79) was seen in the Northwest market area, while San Marcos had a 2.31% increase in rates. Citywide, the average rate decreased ($-0.02), landing at the rate of $1.39, the same rate seen in June and December 2016. The forty-nine new apartment communities that delivered units in the last six months of 2017 are leasing, on average, at $1.46 per square foot, approximately 5.0% higher than the citywide average.

Occupancy rates decreased in ten of the thirteen market areas, as multiple projects added a large number of new units to the inventory. Five market areas saw occupancy declines at or less than one percentage point of (-1.0%) since June 2017, three were between (-1.1%) and (-3.0%) change, and two small suburban market areas experienced a larger decline. Overall occupancy rate decreased to 92.2%, as a total of 52 projects with 10,908 rentable units are still in "lease up". Occupancy for all new (2017) projects is currently 66.3%.

The first six months of 2017 saw the completion of twelve new properties (4,079 units), and nineteen projects continued their construction, adding 2,520 rentable units between December 2016 and June 2017. In the last six months of 2017, seventeen projects that started delivering units in the first six months of the year completed construction, adding 2,243 units, while twelve new projects opened and delivered all their units between June and December, adding an additional 1,842 new units to the market. In addition, there are twenty projects under construction which together have delivered a total of 2,509 rentable units in the last six months of 2017.

Absorption during the first half of 2017 was 2,389 units, which increased in the last six months of 2017, with 3,502 units absorbed. The region has absorbed a total of 5,891 units between December 2016 and December 2017.

Although occupancy has continued to drop, Austin continues to attract people from other regions, albeit at a slower pace. New apartments with convenient access to existing and new jobs are generally experiencing strong absorption with minimal concessions, but other properties in competitive submarkets are struggling. In the short term, with approximately 17,000 units under construction scheduled to deliver in 2018 and 2019, some parts of the region will continue to experience temporary overbuilding. A slight pause in building activity in 2019 should allow rental concessions to diminish or disappear as the properties stabilize and a smaller number of new units are delivered.