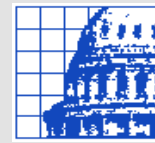


AUSTIN APARTMENT MARKET

2008 Mid-Year Summary



**CAPITOL
MARKET
RESEARCH**

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Both occupancy and absorption slipped downward in June 2008 as new construction accelerated and leasing activity slowed. City-wide occupancy dropped from 96.6% in December to 94.7%, but rents actually increased slightly from \$0.96 to \$0.97 per square foot. Twenty three new apartment communities with 3,468 completed units were added to the market inventory in the first six months of 2008, but five of these projects were partially completed and leasing in December, so the net addition to total units for the first six months was actually 2,811.

Citywide average rental rents increased by a penny over the first six months of 2008. This increase to \$0.97 was a 1% increase over December and is attributable to the new unit additions to the market at significantly higher average rental rates. The overall occupancy rate dropped from 96.6% to 94.7% but occupancy among the stabilized projects (not in lease up) was only slightly lower than it was in December, at 95.8%.

It should be noted, however, that more than 10% of the 41,919 units completed since 2000 are "income restricted", tax credit projects. Leasing among the 3,468 units finished in 2008 has been relatively strong, particularly among the properties downtown and a close-in locations. In June 2008, 50.3% of the units in projects completed this year were leased. The most noticeable decrease in occupancy occurred in Central Austin, where occupancy dropped from 96.7% in December to 88.2% in June. In spite of the decrease in occupancy, rents in the Central market area jumped \$0.10 to an average of \$1.64 per sq. ft.

In the first six months of 2008, eight out of the nine market areas surveyed experienced new unit completions. The largest number of unit completions occurred in the central market area where 682 new units were added downtown and in the West Campus (UNO) district. Far Northwest added 422 units, East Austin added 128 units, 378 units were added to the North Central market, two partially completed projects added 216 units in Southeast Austin, 271 units were added in Southwest Austin, 294 units were added in Round Rock, and 420 units were added in South Central. Twenty three new apartment communities completed a total of 3,468 units

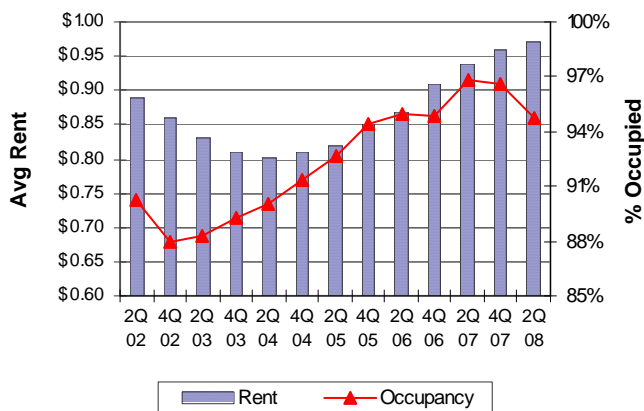
Unless there is a dramatic surge in leasing activity, occupancy will continue to drop, followed by declines in rent by the end of the year.

in the first six months of 2008. However, five of these properties were partially completed in December with 657 units, and the remaining 2,811 units were delivered in the first half of 2008.

Absorption for the first six months of 2008, at 329, was less than 10% of the 4,658 units that were absorbed in the first six months of 2007. A majority of the positive absorption occurred in the Far Northwest market area where 422 units were delivered, and 946 units were absorbed.

The current surge of new construction activity coupled with very low absorption caused a rapid drop in occupancy to 94.7% in June. Based on the number of units remaining to be delivered in 2008 and a continuation of much slower absorption, CMR predicts that the year-end occupancy will drop another 2% and rental rates may actually decline. There are 13 projects currently leasing that have 2,530 unfinished units that are scheduled for delivery over the next 6 months. There are, in addition, 46 projects under construction with a total of 11,491 units that should be delivered in 2008 or 2009. Unless there is a dramatic surge in new leasing activity, occupancy will drop by the end of the year, followed by a decline in average rental rates. This downturn will not last very long, however, because very few new projects will break ground in the next six months.

Rental Rates and Occupancy



Absorption and New Construction

