AUSTIN APARTMENT MARKET

2017 Mid-Year Summary

CAPITOL MARKET RESEARCH

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

Overall market conditions are relatively stable, as rental rates increased slightly through June 2017 to $1.41 per square foot and occupancy declined to 93.3%.

While rental rates continue to increase, the rate of increase slowed, with a June 2017 average of $1.41 per square foot. Citywide occupancy continued a slow decline, reaching 93.3%. Thirty-one new (2017) communities have brought units to the market in the last six months, adding a total of 4,136 new units since December. Only 772 of those units were in the "Central Core", which reflects a continued market shift into the more suburban markets surrounding Austin. This persistent trend is due in part to the high cost of land and the lengthy and expensive City of Austin review process. Citywide, absorption has continued to remain steady, ending the first six months of 2017 with 2,389 units.

Rental rates were stable or increased slightly in all market areas, with the exception of Round Rock. The highest rate of increase, 3.42%, was seen in the Georgetown market area, as it continues to experience a rapid recovery from overbuilding experienced in 2015. Citywide, the average rate increased by 1.44% to reach $1.41 per square foot. The thirty-one new apartment communities that delivered units throughout 2017 (five mid-rise and twenty-six garden style) are leasing, on average, at $1.47 per square foot, approximately 4.23% higher than the citywide average.

Occupancy rates were stable or increased in five of the thirteen market areas. Eight market areas saw slight occupancy declines, while four of these areas experienced a larger decline, as both South Central and Round Rock dropped by (–1.07%) points, Northwest dropped by (–1.16%) points, and San Marcos saw a (–3.16%) decline. In three areas, this was due to new unit deliveries, but in San Marcos, the cause was a combination of reintroduction of remodeled units in older properties and a lower rate of Fall 2017 pre-leasing in student housing properties. The overall occupancy rate decreased to 93.3%, as 38 projects with 8,922 rentable units are still in "lease up". Occupancy for all for new (2017) projects is currently 57.8%, however, the occupancy for the forty new projects completed and stabilized in 2016 and 2017 is 95.1%.

The last six months of 2016 saw the completion of twenty-five properties, delivering 3,786 units to the market, while fourteen projects continued their construction, adding 1,690 rentable units by the end of December 2016. In the first six months of 2017, nine projects that started delivering units in 2016 completed construction, adding 1,328 units, while three new projects opened and delivered all their units between December and June (293 units). In addition, there are nineteen projects under construction that have delivered a total of 2,520 rentable units.

Absorption during the last half of 2016 was 4,193 units, which decreased in the first six months of 2017, with only 2,389 units absorbed. The region has absorbed a total of 6,966 units between June 2016 and June 2017.

Austin continues to attract people from other regions, but the slowdown in job creation is beginning to affect the apartment market as a whole. In the short term, with more than 18,000 units under construction scheduled to deliver at the end of 2017 and into 2018, some parts of the region will experience temporary overbuilding and rent concessions. These concessions will diminish or disappear as the properties stabilize, which attests to the underlying strength of the market as a whole.