Austin

2005 REVIEW

Austin maintained a solid pace of economic growth through 2005, continuing to rebound from the high-tech downturn that cut payrolls in 2002 and 2003. Non-farm employment expanded by 2.1% over the 12 months ended in December, equivalent to the creation of 14,200 new positions. Employment growth was largely concentrated in the hospitality and professional / business services sectors. Indicative of the area's recovery, office and industrial vacancy rates hit their lowest points in four years at the close of 2005, both near 15%. Evidencing strong housing demand, 2005 marked Austin's fifth consecutive year of record single-family home starts. Rising prices were apparent as sales of homes priced over $250,000 increased by nearly 42%. With population growth strengthening and home prices on the rise, thus cutting into the entry-level buyer pool, apartment vacancy rates hit a four-year low in December.

■ Apartment absorption proved stronger in the fourth quarter at 1,730 units, contrasting with the negative year-ago total of 220 units. For the year, 4,518 net move-ins were recorded, the highest total since 2001.

■ A total of 335 new apartment units entered lease-up in the year's final quarter, bringing the annual total to 1,847 units. This outpaced the year-ago delivery total of 1,418 units. Construction was concentrated in the South and West submarkets, as well as in Central and Northeast Austin.

■ Developers of both rental and for-sale multifamily properties showed increased interest as the local economy expanded. Multifamily construction permits ended the year at 4,462 units, well above the year earlier pace of 3,226 units. Developers pulled permits for nearly 1,700 units in the fourth quarter alone.

■ As demand soared, apartment vacancy rates fell, with the overall average rate hitting 5.2% in the year's closing quarter, down from 7.3% a year prior.

■ Despite tighter vacancies, rental rates continued to contract. The overall average rent declined 5.0% over the year ended December, closing the year at $663, which placed rents at early-2000 levels.

2005 SALES

100+ UNITS	2005 SALES	PRICE PER UNIT	PRICE PER SF	2004 SALES	PRICE PER UNIT	PRICE PER SF
2000+	16	$89,196	$92.42	15	$78,252	$67.48
1995-1999	6	$86,368	$94.92	3	$65,500	$72.50
1990-1994	3	$69,388	$80.12	1	$80,000	$81.53
1985-1989	5	$47,020	$63.15	2	$40,083	$55.78
1980-1984	4	$41,350	$59.43	4	$30,962	$42.96
1975-1979	5	$51,134	$70.70	4	$30,474	$48.33
1974 & Older	13	$31,587	$36.81	6	$33,564	$41.76
Totals	**52**	**$62,230**	**$70.79**	**35**	**$57,177**	**$60.20**

2005 FOURTH QUARTER VACANCY & RENT

5+ UNITS	VACANCY		AVG. RENT INCREASE		AVERAGE RENT	
SUBMARKETS	2005	2004	2005	2004	2005	2004
Central	3.8%	8.8%	-2.7%	-0.7%	$712	$732
Northwest	6.1%	6.2%	-6.7%	-4.5%	$783	$839
Far Northwest	5.5%	7.0%	-6.3%	-1.8%	$737	$786
West	3.6%	5.4%	-4.1%	-1.7%	$843	$879
South	4.8%	7.0%	-4.9%	-0.8%	$697	$732
Northeast	5.6%	7.8%	-4.8%	-3.0%	$652	$685
San Marcos	5.6%	8.9%	-2.7%	-2.1%	$714	$734
Totals	**5.2%**	**7.3%**	**-5.0%**	**-2.1%**	**$663**	**$697**

2005 QUICK FACTS

Population Growth **2.8%**
1,443,930

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Employment Growth **2.1%**
689,500

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Home Price Growth **10.4%**
$167,000

• • •

Median Household Income
$54,656

FORECAST 2006 / 2007

Economy

Austin will remain in steady growth mode in the next few years as local employers continue to expand their workforces, resulting in job growth in excess of 2% annually. One major economic coup for the area would be the final commitment from Samsung to build its new $5 billion manufacturing plant in Austin. *(Samsung has named the area its top choice, but the decision awaits final approval from company officials).* If built, the plant would support 900 jobs with an average annual salary of $60,000, making Austin a major chipmaking center. Other high-tech operations will continue to emerge in the area, such as the data centers recently built for Dell, Oracle, and Home Depot. Sustained in-migration will also create numerous service sector jobs, such as in the retail and leisure / hospitality categories.

Demand / Supply

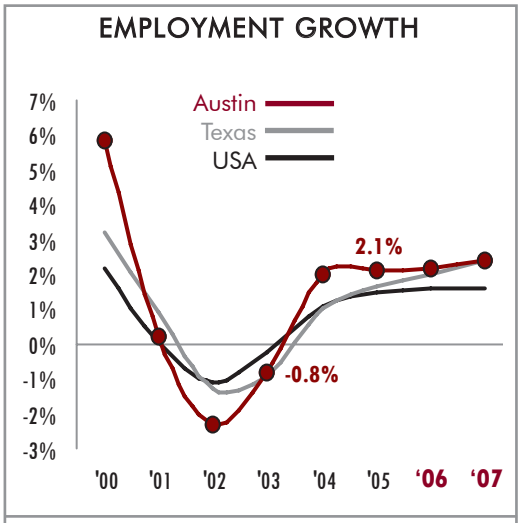
Nearly a third of all jobs created over the next two years will be in lower wage sectors paying less than $25,000 annually. These positions would likely preclude home purchases for those workers, thus producing robust apartment demand. In addition, Austin's low 3.9% unemployment rate at the end of 2005 means that employers will need to draw workers from outside the area. Apartment absorption will measure roughly 4,000 units annually for the next two years, slightly ahead of construction. Development will accelerate, with construction totaling 6,500 new apartment units over the next two years. The area just west of the University of Texas in Central Austin will be a development center, as will the metro's northern suburbs.

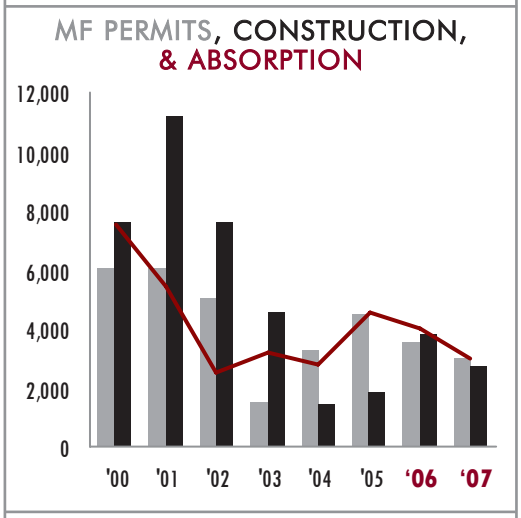
Operations

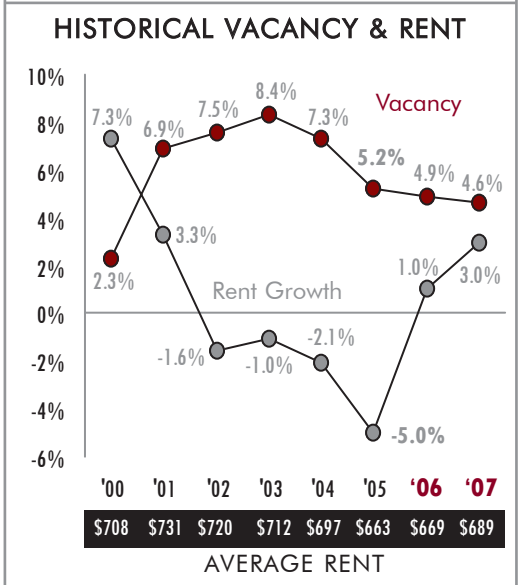
With demand outpacing supply, vacancy rates will decrease to the high-4% range by year-end 2006, on their way to around 4.5% the following year. Coupled with the region's sustained employment and population growth, this improvement will finally allow operators to raise rents. Rent growth will close 2006 near 1% and rise to the 3% range the following year.

Investment Market

Redevelopment of Austin's core will continue to shape the market over the next several years, especially with the City's recent decision to craft a downtown development plan and the mayor's goal of having 25,000 new housing units downtown in the next decade. As new residential towers have sprouted downtown, this redevelopment has spread to areas to the south and east of the central core. Here, lower-density buildings and vacant lots are being purchased with the intent to be demolished and rebuilt, especially since the new projects, usually more upscale, can command premium rents in areas with already-low vacancy rates. This trend is especially apparent in the University of Texas area, where a redevelopment plan was passed in 2004 encouraging taller and higher-density projects.







TEXAS REGION

All 2005 figures are through December 31, 2005. Historical vacancy and rent growth figures in the chart on previous page reflect year-end numbers. For the table on previous page; the vacancy rate figures are fourth quarter, and rent growth figures reflect the last 12 months. Historical employment growth figures are annual averages, 2005 employment figures are from December 31, 2004 through December 31, 2005. Permits represent all multifamily product, 5+ units.