Texas Quarterly Apartment Report

Dr. Luis B. Torres
RESEARCH ECONOMIST
Dr. Harold D. Hunt
RESEARCH ECONOMIST
Dr. Clare Losey
RESEARCH INTERN
Kristina Richter
RESEARCH INTERN
Tyler Rogers
RESEARCH INTERN

TEXAS A&M UNIVERSITY
Texas Real Estate Research Center

TECHNICAL REPORT
2242
FIRST QUARTER 2021
TR

Texas Quarterly Apartment Report:

1st Quarter 2021

DALLAS FORT WORTH

	OCCUPANCY RATES	ASKING RENTS
OVERALL	91.6% =	2.2% ▲
CLASS A	88.4% ▲	1.3% ▲

AUSTIN

	OCCUPANCY RATES	ASKING RENTS
OVERALL	89.6% =	1.5% ▲
CLASS A	89.1% ▲	2.2% ▲

SAN ANTONIO

	OCCUPANCY RATES	ASKING RENTS
OVERALL	91.0% =	2.6% ▲
CLASS A	90.7% ▲	3.1% ▲

HOUSTON

	OCCUPANCY RATES	ASKING RENTS
OVERALL	89.5% =	-0.9% ▲
CLASS A	87.4% ▲	-2.5% ▲

TEXAS A&M UNIVERSITY
Texas Real Estate Research Center

Sources: CoStar and the Texas Real Estate Research Center at Texas A&M University

Table of Contents

About this Report

Texas Real Estate Research Center economists continuously monitor multiple facets of the global, national, and Texas economies. The *Texas Quarterly Apartment Report* summarizes important economic indicators that help discern apartment real estate trends in Texas' four major metropolitan areas (MSA)—Austin, Dallas-Fort Worth, Houston, and San Antonio.

All quarterly measurements are calculated using seasonally adjusted and trend-cycled data, while percentage changes reflect nominal year-over-year estimates, unless stated otherwise. Seasonal adjustment smooths the quarterly fluctuations in the data. Graphs are also trend-cycle adjusted, which provides a clearer, less volatile view of upward and downward movements. Both enrich our analysis by producing a more accurate depiction of long-term movements in the data.

This report analyzes effective rents, as opposed to asking rents, to reflect rental concessions. It uses data from ALN Apartment Data and CoStar. The time series varies by sector and geography, depending on the data available. Sectors with shorter time series limit the interpretation of the data. CoStar makes changes to its historical data series.

This quarterly publication provides data and insights on the Texas apartment real estate markets. We hope you find them useful. Your feedback is always appreciated. Please send comments and suggestions to info@recenter.tamu.edu.

Dr. Luis Torres, Dr. Harold Hunt, Dr. Clare Losey, Kristina Richter, and Tyler Rogers

Economic activity within Texas moderated during first quarter 2021 but remained on the path to recovery despite weather-related disruptions in February. Robust hiring in March resulted in solid first-quarter payroll growth, although joblessness in the Lone Star State was still higher than the national average. Moreover, inflation-adjusted headline wage numbers flattened compared with year-ago levels while initial unemployment claims surged unexpectedly. On the bright side, oil prices rebounded, contributing to increased export values. As Gov. Greg Abbott removed business restrictions amid downward-trending new COVID-19 cases, consumer confidence improved and supported an optimistic outlook on the service-providing sector. The relative health of the state's economy and favorable business practices attracted migrants and firms from other parts of the country, bolstering population growth and housing demand. Containment of the pandemic is vital as additional waves of infection, although becoming less likely as vaccination rates increase, can weigh on consumer behavior and spending and slow the return to pre-pandemic conditions. For additional commentary and statistics, see the Texas Real Estate Research Center's *Outlook for the Texas Economy*.

The Texas Residential Construction Cycle (Coincident) Index, which measures current construction levels, increased to its highest level in a year due to improved industry employment, wages, and construction values. Construction activity is expected to remain strong in the coming months as indicated by the Residential Construction Leading Index, which rose to an all-time high in March amid elevated weighted building permits and housing starts, offsetting growth in the ten-year real Treasury bill (Figure 1). Similarly, the leading indexes in North and Central Texas trended upward, but Houston's metric continued to decline, suggesting an impending slowdown in construction (Figure 2).

Overall market trends improved during March as more Metropolitan Statistical Areas (MSAs) started to register higher year-over-year changes in both occupancy and rents, while other MSAs continued to record fewer negative changes in occupancy rates and, in some cases, other registered less negative numbers in both rent and occupancy change. This caused the Texas average to register a negative value in occupancy change but a positive in rent change. Due to the difficulties facing the oil industry, Midland/Odessa's apartment market continued to struggle during March but it did show some improvement while still registering both negative rent growth and negative changes in occupancy rates. Additionally, Austin, Houston, and San Angelo registered negative numbers in both categories (Figure 3).

Texas nonfarm employment added 99,000 jobs in March, rising 4.3 percent on a seasonally adjusted annual rate (SAAR) despite shedding 2,400 jobs in February during Winter Storm Uri. The surprisingly strong gain pushed the Dallas Fed's annual employment forecast up from a 6.0 to a 6.6 percent increase to 13.21 million workers. Hiring in Houston remained robust in the first three months of the year, recovering 34,800 jobs and almost matching the previous quarterly gain. Total payrolls, however, were still 6 percent off from pre-pandemic levels, a larger gap than the other major metros. Austin added 16,700 employees in the first quarter, exceeding the state in terms of SAAR growth (5.5 percent). San Antonio and Dallas registered net quarterly increases of 10,600 and 10,100 workers, respectively. Payroll expansions were largely concentrated in the leisure/hospitality, retail trade, professional/business services, and education/health services industries across the major metros. Only in Fort Worth did employment decline, shedding 2,000 positions during the first quarter due to Winter Storm Uri. Goods-producing employment decreased, but the transportation/utilities sector was the main deterrent to growth.

Texas' goods-producing sector regained a record-breaking 32,100 positions in March, pushing the first-quarter net total to 38,500 workers. Amid increasing oil prices, energy-related employment rose by 10,600 jobs in the first three months of the year but remained more than a fifth below year-ago levels. Recovering global economic conditions supported the state's manufacturing industry, which added 9,200 employees, nearly half of which were hired in Dallas or San Antonio. Durable-goods payrolls expanded every month in the first quarter, resulting in a 7,900-job gain. Meanwhile, construction payrolls had sluggish growth the first two months of the year but accelerated in March, adding 18,700 quarterly jobs.

Despite Texas' service-providing sector being the hardest-hit major industry last April, employment fell only 3.1 percent relative to the February 2020 peak (compared with the 3.6 percent nonfarm decline) after hiring 97,100 workers in the first quarter. Leisure/hospitality recouped 20,500 jobs in 1Q2021, but arts/entertainment/recreation payrolls remained a fifth below pre-pandemic levels. On the other hand, the transportation/warehousing/utilities industry added 10,700 positions, surpassing year-ago employment by 6.6 percent.

Climbing oil prices, accelerating vaccination rates, and optimistic national economic data during the first quarter resulted in higher growth and inflation expectations for 2021. The ten-year U.S. Treasury bond yield increased to 1.2 percent in March, almost reaching pre-pandemic levels. The spread between apartment capitalization rates and the ten-year Treasury yield started to decrease after 3Q2020. The decreasing spread indicated less risk and profitability in apartment real estate (Figure 4). This trend was helped by the increase in the ten-year Treasury yield. Increasing vaccination rates has reduced the uncertainty surrounding the end of the pandemic, allowing for the full reopening of the economy and reducing the risk on multifamily cap rates.

Overall apartment cap rates for Houston and San Antonio remain the highest, followed by Dallas-Fort Worth (DFW) and Austin. The spread with the ten-year Treasury bill continued to decrease in 1Q2021. Austin continues to be the least risky and lowest return market for multifamily real estate based on its spread with the ten-year Treasury bill (Figure 4).

The number of Texans filing initial unemployment insurance claims shot up to 370,200, its highest level since May 2020, after increasing the last three weeks of the month. The surge was unexpected amid downward-trending new COVID-19 cases and the termination of capacity restrictions for businesses on March 10. Initial claims ended the month higher within the major MSAs as well. Texas' average weekly continued unemployment insurance claims, however, it declined for the eighth consecutive month, suggesting improved conditions for laid-off workers seeking new job opportunities. Nevertheless, the labor market still has a long road to recovery with total claims six-and-a-half times greater than pre-pandemic levels a year ago due to the rise in initial claims. Anecdotal evidence from the service sector points toward the lack of available applicants and generous unemployment benefits as major impediments in rehiring workers. To eliminate the incentive of remaining unemployed, Texas is opting out of further federal unemployment compensation related to the COVID-19 pandemic effective June 26, 2021. This will reduce minimum unemployment payments from $19,240 a year to $3,640 a year.

Despite the increase in hiring during March, Texas' unemployment rate was unchanged at 6.9 percent, still greater than the national rate of 6 percent, as the size of the state's labor force expanded, pushing the labor force participation rate to 62.3 percent. Joblessness in Houston also flattened, albeit at a higher rate of 8.3 percent, while the size of the local labor force expanded for the second straight month. On the other hand, unemployment inched down to 7 percent in Fort Worth and 6.8 and 6.7 percent in San Antonio and Dallas, respectively. The metric remained lowest in Austin, where the jobless rate slid to 5.5 percent. The decrease in unemployment after 2Q2020 is important for multifamily vacancies given the relationship between unemployment rates and vacancy rates. The longer unemployment rates remain elevated, the stronger the negative impact on vacancies and rents. As expected, the increase in the unemployment rate during 2Q2020 pushed up vacancy rates in the major metros, and the declining unemployment rates have alleviated some of the pressures on rising vacancy rates (Figures 5-8). In addition, the eviction moratorium and the Federal stimulus that included transfer payments through stimulus checks and renter/landlord assistance has pushed down vacancy rates.

According to the U.S. Census' Household Pulse Survey, 10 percent of Texas renter-occupied households were behind on their payments during March, lower than the national rate of 14 percent (Table 1). Renter households in DFW registered a lower value of 8 percent, contrasting with Houston's value of 18 percent, recording a similar value than what was observed at the national level but higher than the state. This is an improvement to the December pulse survey numbers.

On the respondents' ability to pay next month's rent, 23 percent of renter households in Texas stated they have no confidence or only slight confidence in making their rent payment next month, equal to the 31 percent observed at the U.S. level (Table 2). DFW recorded a lower value of 18 percent, contrasting with Houston higher percentage of 35 percent. This paints a much better picture for both renters and landlords going forward compared with the December pulse survey results.

Forty-six percent of Texas respondents who were not current on rental payments said they were either very likely or somewhat likely to be evicted in the next two months compared with 42 percent nationwide (Table 3). That same metric, however, was higher in DFW and Houston, both registering 54 percent. Even though the pulse survey results improved from December to March, the multifamily rental market outlooks in both DFW and Houston are worrisome due to the high numbers of households that could be evicted. Federal eviction moratoria are in place until June 30, 2021. Continued household stability is essential to Texas' economic recovery.

Outlook Improves from COVID-19 Impact on Multifamily

- National eviction moratorium expires June 30, 2021.
- Further rounds of fiscal stimulus enacted by the federal government and increasing vaccination rates will benefit the multifamily market in 2021.
    - Fiscal stimulus serves as a bridge for unemployed workers by not allowing their incomes to fall drastically until they re-enter the labor force. It also helps keep businesses from closing permanently.
    - Increasing vaccination rates will allow the economy to reopen completely, especially benefiting service industries that cannot socially distance.
- The federal government's emergency rental assistance programs enacted by Congress are assisting tenants who are unable to pay rent or utilities, alleviating some of the eviction problems facing the apartment market. Landlords will also benefit from receiving payments for rent past due. (For additional information, see Emergency Rental Assistance Program and Eviction Moratorium, page 10.)
- Even with the assistance provided by the latest two rounds of fiscal stimulus, many renters are jobless and depend on weekly unemployment benefits. This is expected to change as the economic recovery continues, possibly recovering all of the jobs lost due to the pandemic by the end of the year.
- The number of tenants who will be able to renegotiate over past rent due is unknown. Some renters would need to move and could face issues finding new places due to an eviction record.
- Still, some tenants will struggle to pay rent, depending on employment and wage level.
    - The number of tenants who find themselves in this situation is unknown.
    - This affects landlords' ability to cover operating costs and make mortgage payments on properties.
- The uncertainty surrounding the ending of the eviction moratorium is becoming less worrisome due to the improving economy.
- Once the pressures from the pandemic are lifted, the multifamily market is positioned to do well because of constrained single-family supply and prices rapidly outpacing incomes, especially in high-growth Texas markets like Austin and DFW.

Table 1. Last Month's Payment Status for Renter-Occupied Housing Units

Region	Occupied Without Rent	Household Currently Caught Up on Rent Payments		
		Yes	No	Did not report
United States	6%	80%	14%	0%
Texas	5%	84%	10%	0%
Dallas-Fort Worth	3%	88%	8%	1%
Houston-The Woodlands-Sugar Land	3%	82%	14%	0%

Note: Total includes population 18 years and older in renter-occupied housing units and excludes those living in different types of housing units and those who did not report their housing situation. Totals may not equal 100 percent due to rounding.

Source: U.S. Census Bureau Household Pulse Survey, March 17–29

Table 2. Confidence in Ability to Make Next Month's Payment for Renter-Occupied Housing Units

Region	Confidence to Pay Next Month's Rent					
	No Confidence	Slight Confidence	Moderate Confidence	High Confidence	Payment Is/Will Be Deferred	Did Not Report
United States	9%	14%	19%	50%	1%	1%
Texas	9%	14%	21%	49%	1%	0%
Dallas-Fort Worth	7%	11%	24%	54%	0%	1%
Houston-The Woodlands-Sugar Land	12%	23%	20%	41%	1%	0%

Note: Total includes population 18 years and older in renter-occupied housing units and excludes those living in different types of housing units and those who did not report their housing situation. Totals may not equal 100 percent due to rounding.

Source: U.S. Census Bureau Household Pulse Survey, March 17–29

Table 3. Likelihood of Having to Leave this House in Next Two Months Due to Eviction

Region	Likelihood of Leaving This Home Due to Eviction in Next Two Months				
	Very Likely	Somewhat Likely	Not Very Likely	Not Likely at All	Did Not Teport
United States	15%	27%	32%	25%	2%
Texas	19%	27%	28%	27%	1%
Dallas-Fort Worth	17%	37%	27%	19%	0%
Houston-The Woodlands-Sugar Land	26%	28%	13%	31%	2%

Note: Total includes population 18 years and older in renter-occupied housing units and excludes those living in different types of housing units and those who did not report their housing situation. Totals may not equal 100 percent due to rounding.

Source: U.S. Census Bureau Household Pulse Survey, March 17–29

Emergency Rental Assistance Programs and Eviction Moratorium

The Federal Government's Emergency Rental Assistance (ERA) programs enacted by Congress are assisting households that are unable to pay rent or utilities, and they are alleviating some of the eviction problems facing the apartment market due to the pandemic. They provide relief to landlords who haven't received rent payments, affecting their ability to cover operating costs and make mortgage payments. Two separate programs have been established: the ERA1, which provides up to $25 billion under the Consolidated Appropriations Act, 2021, which was enacted Dec. 27, 2020; and the ERA2, which provides up to $21.55 billion under the American Rescue Plan Act of 2021, which was enacted March 11, 2021. The funds are provided directly by the U.S. Treasury to states, U.S. territories, and local governments.

Households eligible to receive assistance must demonstrate that one or more individuals within the household has qualified for unemployment benefits or experienced a reduction in household income, incurred significant costs, or experienced other financial hardship due to the Corona virus pandemic; one or more individuals within the household can demonstrate a risk of experiencing homelessness or housing instability; and the household has a household income at or below 80 percent of the area median income. There are some differences in eligibility between ERA1 and ERA2, like the introduction in ERA2 that a low-income family is also eligible to receive assistance, but overall the eligibility requirements are similar.

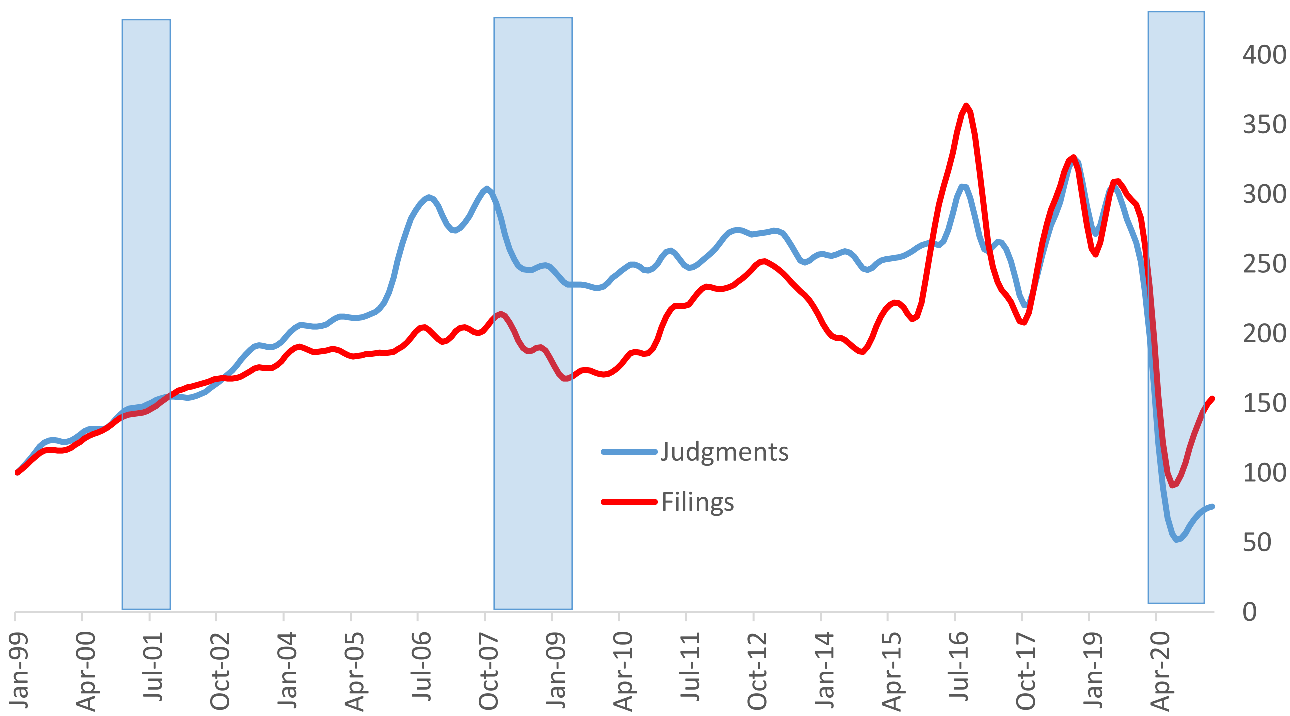
The Texas Rent Relief Program is for both tenants and landlords. Through the program, they can apply for unpaid or future rent assistance. In the case of the tenant application, households can apply for unpaid or future rent or utilities. They can apply directly and invite their landlord to participate. If the landlord does not want to participate, they can still apply by themselves. The landlord can also apply for unpaid or future rent on behalf of tenants. All payments must be used to satisfy the tenants' rental obligations, and the tenant must sign the application.

The Texas Relief Program can help renters with past-due, current, and up to two months of expected rent costs, utility, and home energy expenses starting as far back as March 13, 2020. After the initial three months of current/future assistance, the tenant can apply for three additional months of assistance if funds are still available. This means households could potentially request assistance for up to 11 months of past-due bills.

The ERA1 paid $1.3 billion to the Texas state government. Local governments of Texas' major MSAs received funds as follows: Austin, $47.1 million; Dallas-Fort Worth, $201.2 million; Houston, $196.6 million; and San Antonio, $60.5 million. ERA2 allocated $1 billion for the state, $64 million for Austin, $170.2 million for DFW, $207.4 million for Houston, and $60.6 million for San Antonio.

The renter assistance will provide some needed help to households facing eviction when the national eviction moratorium ends June 30, 2021. The March 2020 eviction moratorium has pushed down the number of judgments in favor of the landlord and filings by the landlord in Harris County to unprecedented levels not observed even during normal business cycle conditions. After reaching a trough in August 2020, those numbers have started to increase. The only issue with the eviction data is that it lags for the entry of new cases pushing up most recent numbers. In addition to the eviction moratorium, transfer payments like additional unemployment benefits provided by the federal government have helped households continue to make rent payments on time even after finding themselves unemployed.

Harris County Eviction Judgements and Fillings
(Index Jan1999 = 100)



Note: Trend-cycle adjusted. Shaded areas refer to U.S. recessions.
Sources: Harris County JP Court and Texas Real Estate Research Center at Texas A&M University

Austin (Figures 9 – 12):

The actual vacancy rate in the overall Austin apartment market for 1Q2021 dropped slightly to 10.3 percent. While vacancy did not record much improvement, effective rent growth per unit rose to 1.5 percent. This is the first time this market has seen positive effective rent since the beginning of the pandemic.

Real Page Inc.'s data show 95.1 percent of multifamily renters in Austin made full or partial rental payments in 1Q2021. Unfortunately, this is a decline from the previous quarter, which had reported 97.0 percent of multifamily lessees were making rental payments. Despite the decrease in percentage of renters making lease payments, the figures remain well above both the national and state averages. All of these factors indicate Austin's apartment market is progressing to positively.

Net absorption has surpassed pre-pandemic levels, helped by the slight decrease in units delivered to Austin's overall apartment market this past quarter. Additionally, units under construction continued the downward trend begun in 1Q2020. In contrast, construction value starts have increased since 2Q2020, indicating more multifamily apartments are in the pipeline. These cumulative factors should create higher demand for the Austin multifamily space currently available.

According to U.S. Census Bureau data, Austin continued to fall in the ranks of the national metros in the number of 5+ multifamily unit building permits submitted. In 4Q2020, Austin ranked seventh after ranking second in the prior quarter. Now, Austin ranks tenth on this list for 1Q2021.

This metric indicates developers' diminished interest in adding more multifamily units to the market in the short run. The long-run outlook is for more development to occur due to improving vacancy rates. This should be accompanied by the first sign of positive rent growth since the onset of the pandemic. An influx of employers moving to Austin from out of state translates to increased building permits in the near future. Finally, the greater number of vaccinated citizens and increased herd immunity continues to show a more positive outlook for Austin's overall multifamily market.

Dallas-Fort Worth (Figures 13 – 16):

Actual vacancy in Dallas-Fort Worth's overall apartment market fell from 4Q2020 to 1Q2021. The value in this sector was 8.4 percent, 0.1 percent below the natural vacancy rate. Effective rent growth per unit increased 2.2 percent, steadily improving since 4Q2020, now nearing pre-pandemic levels.

The increase in net absorption reflects favorably on Dallas-Fort Worth's overall apartment market. This improvement can be attributed to the decline in the numbers of both units delivered in 1Q2021 and a decrease in units under construction. In contrast, construction value starts have registered two straight quarters of increases signaling new construction is gaining momentum and future deliveries should increase. Overall, Dallas-Fort Worth's multifamily market has fared well compared with the three other major Texas MSAs with lower vacancy rates.

Census data indicate that the metro ranked second in the United States for the number of 5+ multifamily units building permits submitted in 1Q2021. This is a large increase from being ranked ninth in the fourth quarter 2020 and shows developers' interest in building additional multifamily units in this market. It may also suggest the DFW area could see faster economic growth than other regions after the pandemic.

In data provided by RealPage Inc., 94.1 percent of multifamily renters in this sector made a full or partial rental payment in 1Q2021. This is a 2.0 percent decline from the previous quarter and a 2.2 percent decrease from the same time last year. Despite a decline, the overall Dallas-Fort Worth apartment market is faring well with the introduction of the COVID vaccine and the reopening of the economy.

Houston (Figures 17 – 20):

Houston's overall apartment actual vacancy rate declined to 10.5 percent in 1Q2021, showing some mild signs of improvement from the previous quarter. Additionally, effective rent growth per unit improved 1.7 percent from 4Q2020, changing from recording negative rent growth to practically zero growth. Both of these metrics suggest Houston's overall apartment sector may be on the recovery path following the damaging effects of the pandemic to Houston' oil and gas industry and the leisure and hospitality sector.

Despite the improvements in the vacancy rate and rent growth, data from RealPage Inc. show the percentage of Houston's renter population that made a full or partial rent payment fell to 94.0 percent during 1Q2020. This value marks a 0.7 percent decline in this metric from the previous quarter as well as a 1.9 percent decrease from a year ago.

According to the U.S. Census Bureau, Houston continues to be ranked fourth in the United States for the number of 5+ unit multifamily building permits submitted since 4Q2020. The number of units under construction and units delivered in Houston fell this quarter, contributing to the increase in net absorption during 1Q2020. In addition, construction value starts fell during 1Q2020 and remain below pre-pandemic levels, signaling that future deliveries are not expected to improve in the coming months.

Portions of Houston's data suggest Houston is improving compared with the last several months. However, on viewing the data cumulatively, the overall picture of this market's health is vague. The fact that actual vacancy has not increased and rent growth per unit is no longer negative suggests an optimistic outlook. However, the reduction in number of renters making lease payments is cause for concern, as increase in rent growth may not be sustained over time.

San Antonio (Figures 21 – 24):

Actual vacancy in San Antonio's overall apartment market was 9.0 percent this quarter, which is a 0.25 percent improvement from 4Q2020. Even though this sector saw an increase in apartment occupancy, it still remains more than the natural vacancy rate of 8.5 percent. Additionally, it is worth noting that San Antonio's actual apartment vacancy rate has not been lower than the natural vacancy point since 1Q2016. Also, RealPage Inc. reported that 94.0 percent of San Antonio-New Braunfels' multifamily tenants made a partial or a full rent payment in 1Q2021, a 0.7 percent decrease from the end of 2020. Each of the four major Texas MSAs reported a decline in the percentage of multifamily renters who have paid money toward their rent.

Effective rent growth per unit continued to increase in 1Q2021. This value is now up at 2.7 percent, which signifies a 1.3 percent rise since the previous quarter. San Antonio has maintained positive effective rent growth throughout the pandemic, excluding 2Q2020, which demonstrates this market's resilience to the unfortunate economic effects of the pandemic.

Net absorption had its first decline in the last two quarters but remains positive. An increase in units under construction may impact net absorption in the future. Construction value starts have fallen for two straight quarters, indicating that future deliveries will probably not increase in the coming months. Delivered units fell during 1Q2020 and have declined for two straight quarters. Additional Census data show San Antonio ranks 23 nationally in the number of 5+ multifamily unit building permits, dropping from 21 last quarter.

*Note: RealPage Inc. rent payment percentages data are based on the number of renters who paid their rent in full or in partial payments.

Austin-Round Rock (Figures 25 – 28):

Austin-Round Rock's Class A apartment market's actual vacancy fell to 10.9 percent during 1Q2021. This is the first time since the pandemic that the actual vacancy rate for this sector has been below 11.0 percent, comparable to the values seen throughout 2019. The actual vacancy rate remains above the natural vacancy rate of 9.0 percent, but this is not uncharacteristic for Austin-Round Rock. Actual vacancy has not fallen below 9.0 percent since 4Q2014. Additionally, effective rent growth per unit became positive for Class A apartments. In 1Q2021, effective rent growth per unit was 2.2 percent. Effective rent growth has not been positive since 1Q2020.

Net absorption had a minimal decrease this quarter while units delivered fell to the lowest level since 2Q2017. Cumulatively, these factors suggest there is little change to demand for Class A apartment space, as supply barely trended upward while net absorption remained relatively unchanged from 4Q2020. Units under construction fell during 1Q2021, which could help balance out supply of space relative to demand in the near future. The decline in units under construction is part of the downward trend for this sector since reaching a peak during 2Q2019. If demand doesn't change, fewer unites being delivered in this market will allow occupancy rates and effective rent growth per unit to increase.

Dallas-Fort Worth (Figures 29 – 32):

The actual vacancy rate in Dallas-Fort Worth's Class A apartment market fell to 11.6 percent in 1Q2021, a 1.2 percent improvement from the previous quarter. Actual vacancy still remains above the natural vacancy point of 9.1 percent. The increase in occupancy rates was accompanied by effective rent growth per unit during 1Q2021 increasing by 1.3 percent, not registering positive rent growth since prior to the pandemic.

Net absorption increased over the quarter and has trended upward since 2Q2020. This upward trend may have been helped by a profound decline in the number of units delivered. The drop in units delivered was accompanied by a decline in the units under construction, which has trended downward since peaking during 4Q2018. A slight drop in units under construction should help balance the relationship between supply and demand in the coming months as long as demand holds.

Houston (Figures 33 – 36):

Houston's Class A apartment market's actual vacancy rate fell to 12.7 percent, which marks the first increase in market occupancy since 1Q2019. Unfortunately, effective rent growth per unit remains negative. However, it did increase by 3.2 percent from 4Q2020. Effective rent growth per unit was -1.3 percent in 1Q20201, still the lowest percentage for effective rent growth of the four major Texas MSAs. While neither of these improved values is extremely encouraging, they do suggest a more positive outlook for this market as the economic constraints from the pandemic begin to loosen.

Net absorption continued to trend upward from its drop during 2Q2020. The increase in net absorption was aided by a decline in units delivered. Units under construction also fell during 1Q2021 and are trending downward after peaking in 4Q2019. Slight increases in occupancy for Class A apartment space in Houston, coupled with negative effective rent growth due to the pandemic, have likely weakened the desire for developers to add space to this market. Even with Texas' economy reopening for business, it still seems unlikely that Houston will have as speedy a recovery as other MSAs in this state due to the oil and gas industry's expected subdued recovery.

San Antonio (Figures 37 – 40):

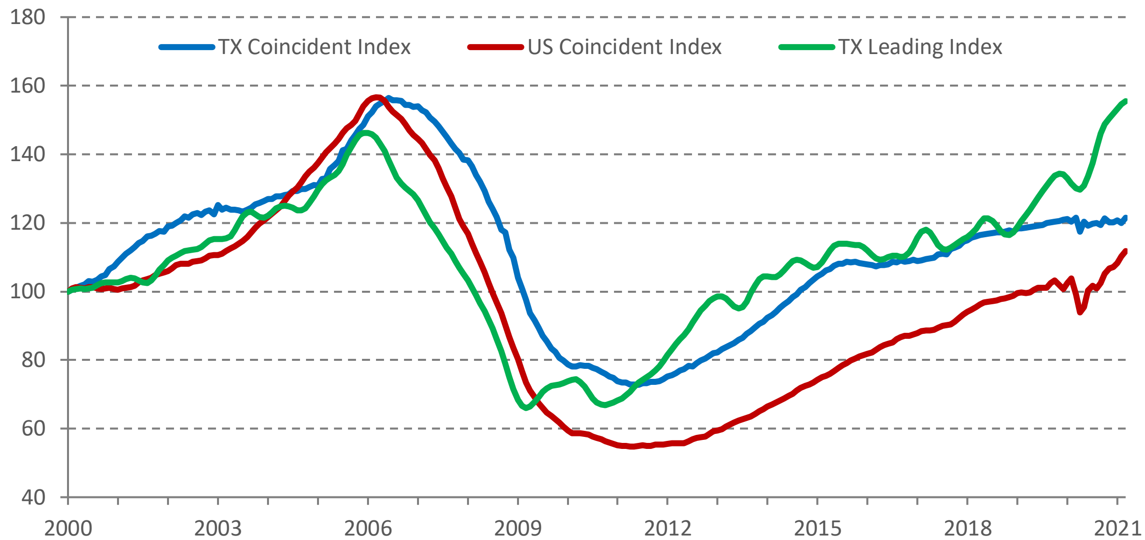
San Antonio's Class A apartment market vacancy rates dropped to 9.3 percent during 1Q2021, recording declines for three consecutive quarters. Effective rent growth per unit increased substantially from -1.1 percent in 4Q2020 to a positive growth rate of 3.1 percent during 1Q2021. Currently, San Antonio's Class A multifamily is experiencing the highest effective rent growth per unit of the four major metros.

In contrast, a decline in net absorption was accompanied by a drop in units delivered. In addition, the number of units under construction fell. An upward shift in occupancy and effective rent growth may lead to additional development in this market sooner than later when compared with other areas of the state.

Figures

Figure 1. Texas Residential Construction Index

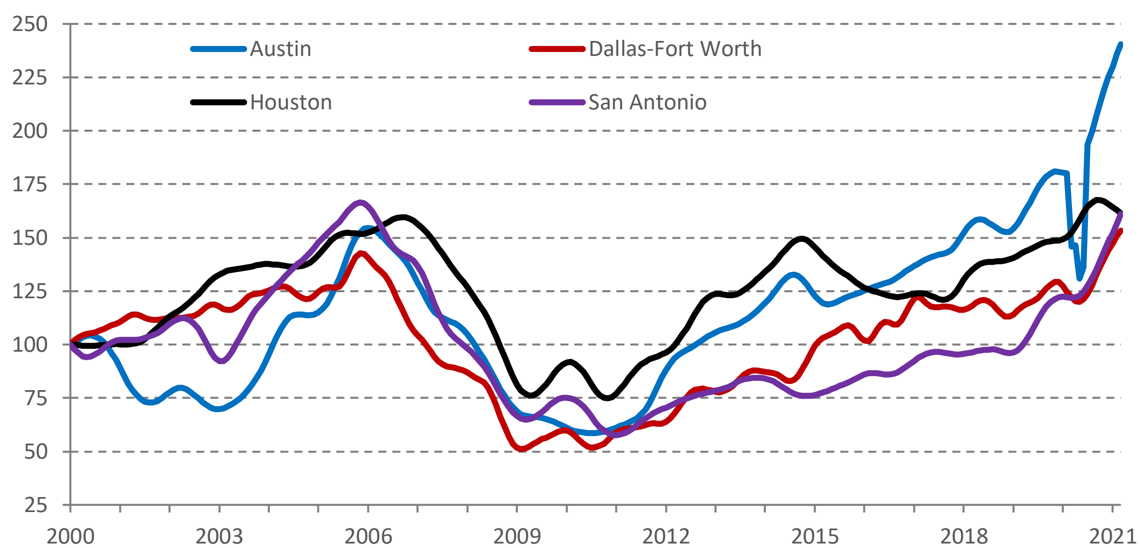
(Index Jan 2000 = 100)



Source: Texas Real Estate Research Center at Texas A&M University

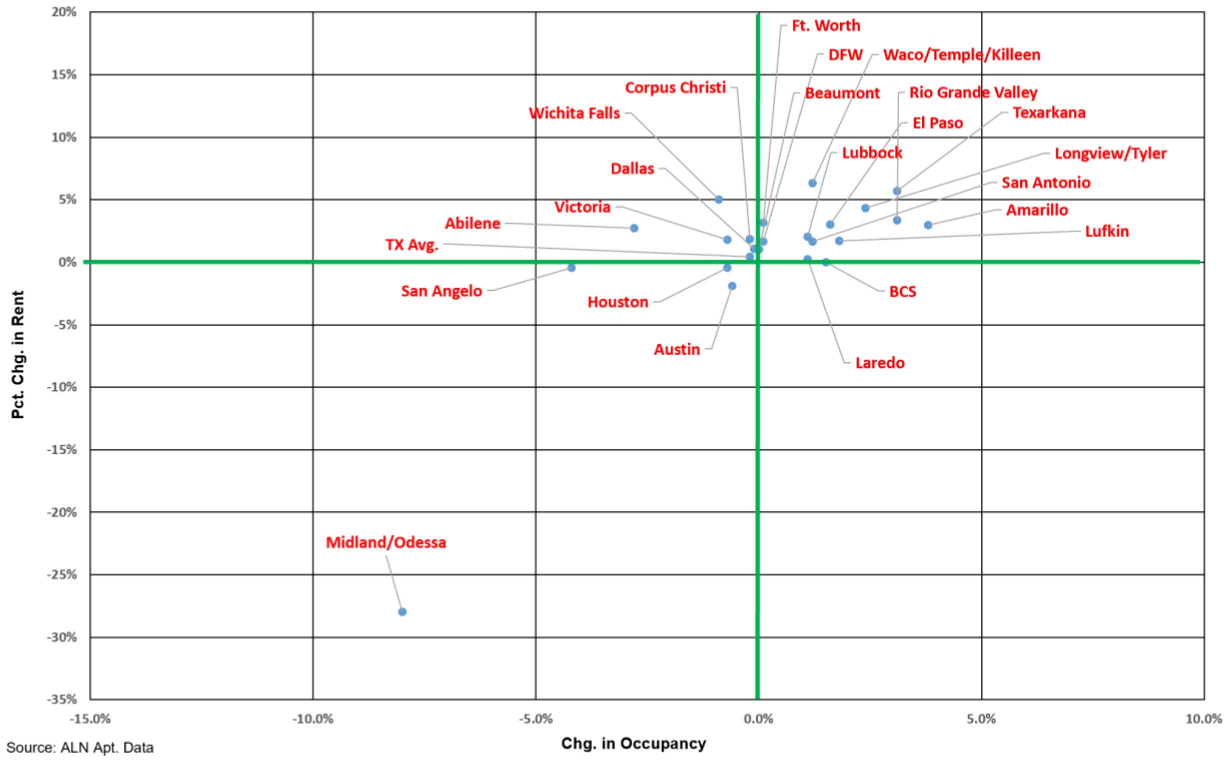
Figure 2. Major MSAs Residential Construction Leading Index

(Index Jan 2000 = 100)



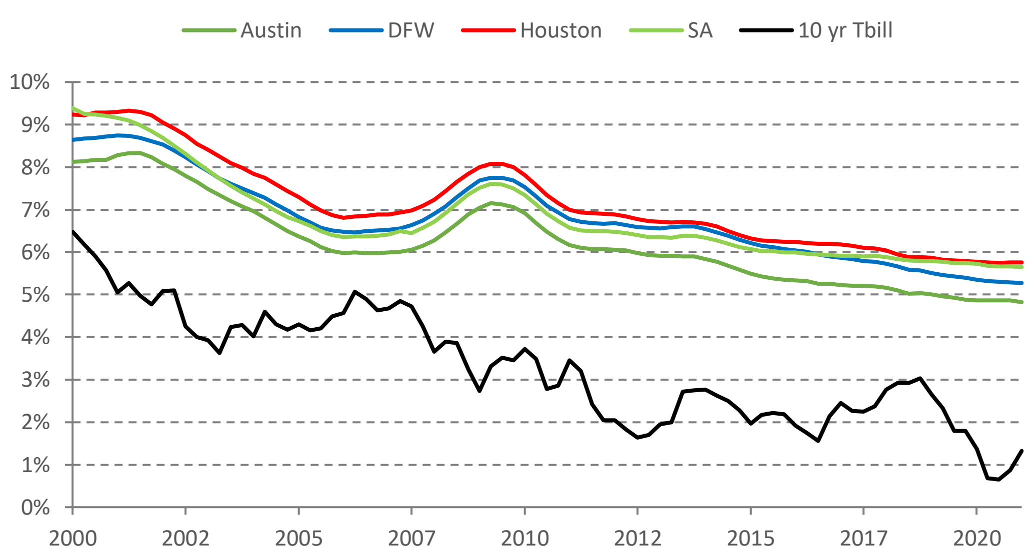
Source: Texas Real Estate Research Center at Texas A&M University

Figure 3. Overall Apartment Market Y-O-Y Percent Changes in Effective Rent and Occupancy as of March 2021



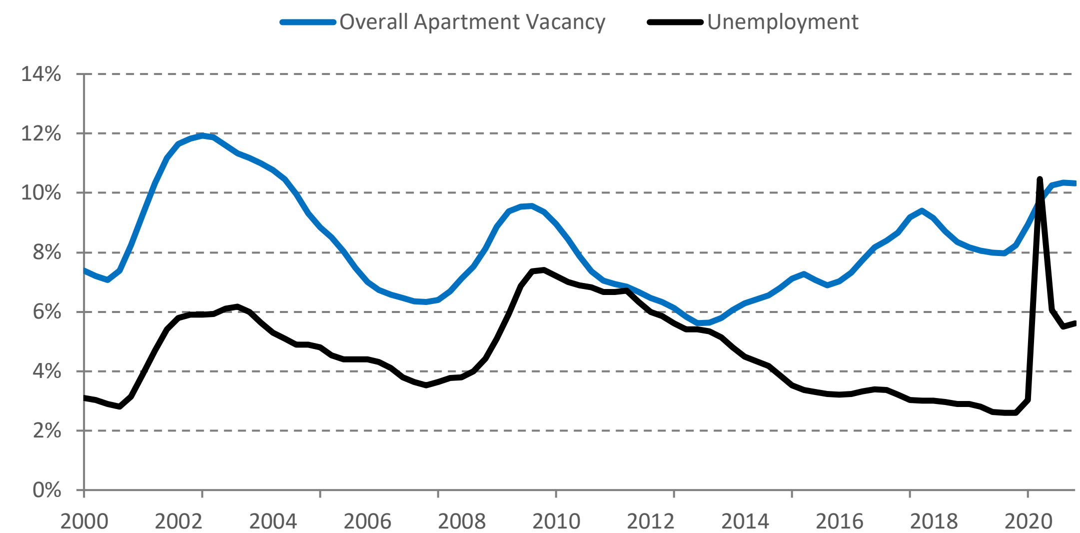
Sources: ALN Apartment Data and Texas Real Estate Research Center at Texas A&M University

Figure 4. Capitalization Rates v. Ten-Year Treasury Bills



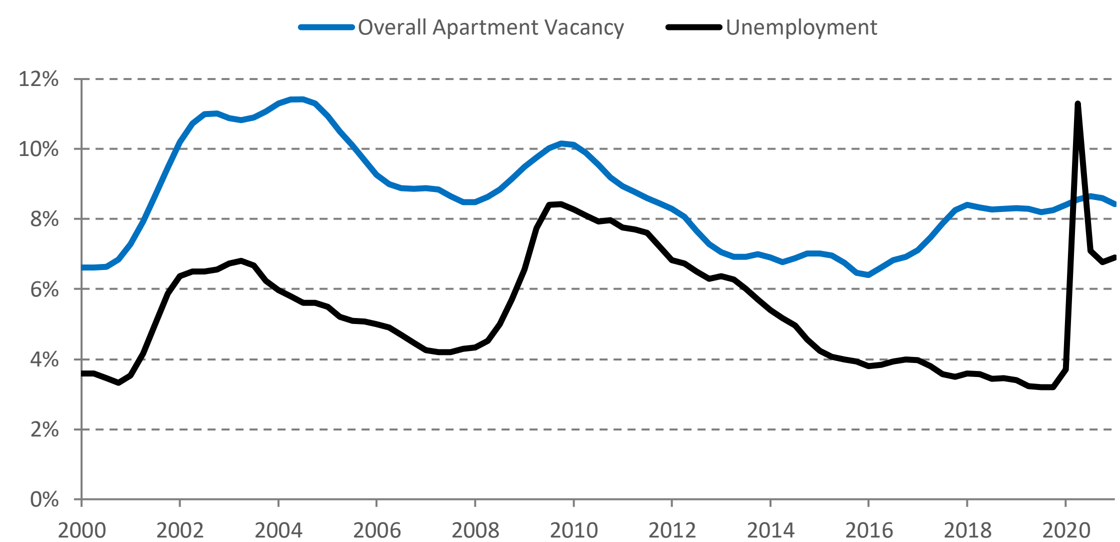
Source: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 5. Austin Apartment Vacancy Rates and Unemployment (SA and TC)*



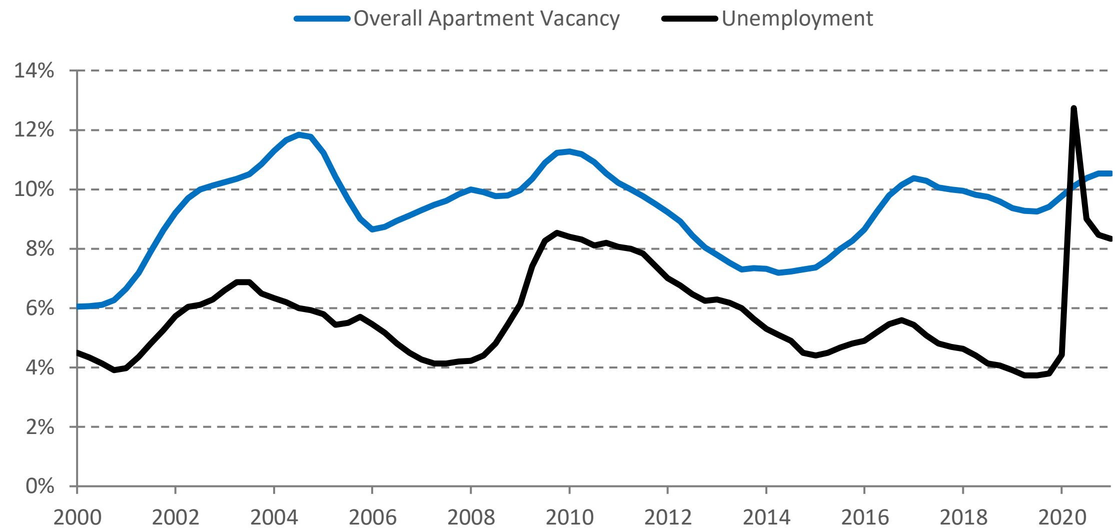
*Note: Vacancy rates seasonally adjusted and trend cycled, unemployment seasonally adjusted.
Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

Figure 6. DFW Apartment Vacancy Rates and Unemployment (SA and TC)*



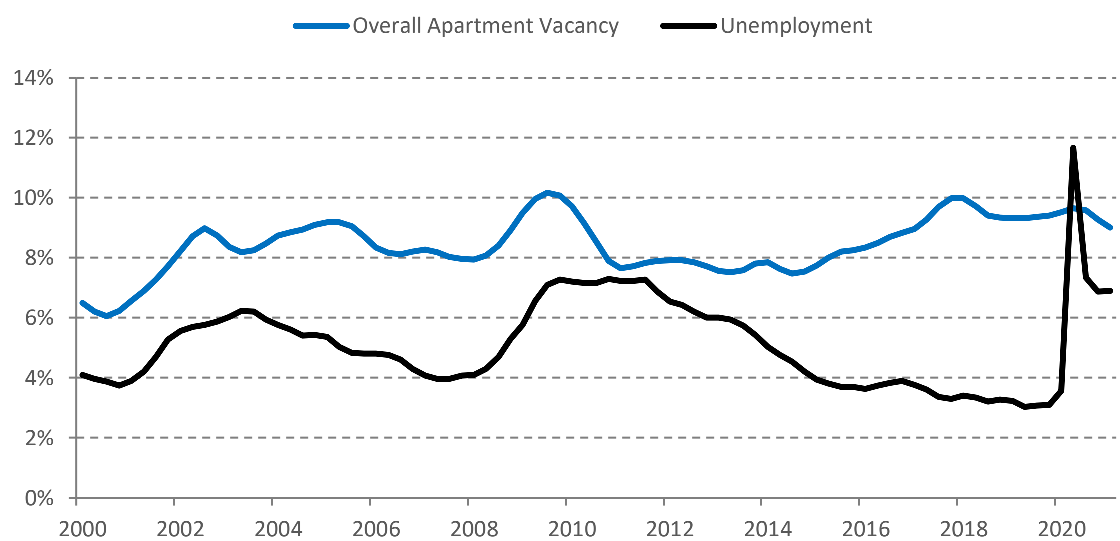
*Note: Vacancy rates seasonally adjusted and trend cycled, unemployment seasonally adjusted.
Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

Figure 7. Houston Apartment Vacancy Rates and Unemployment (SA and TC)*



*Note: Vacancy rates seasonally adjusted and trend cycled, unemployment seasonally adjusted.
Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

Figure 8. San Antonio Apartment Vacancy Rates and Unemployment (SA and TC)*



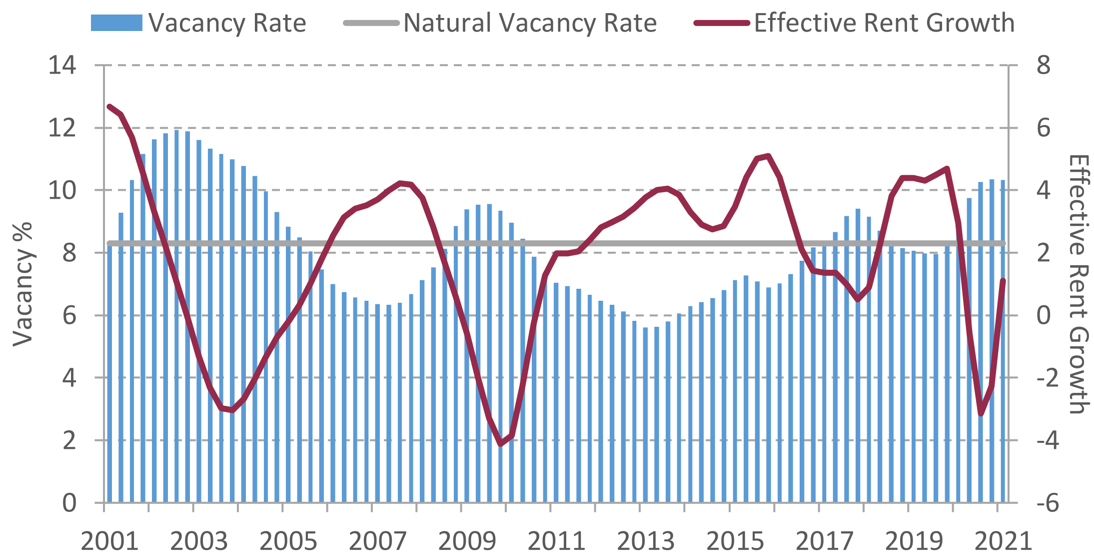
*Note: Vacancy rates seasonally adjusted and trend cycled, unemployment seasonally adjusted.
Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

Austin Overall

OCCUPANCY RATE	EFFECTIVE RENT GROWTH (PER UNIT)	NET ABSORPTION (UNITS)	CONSTRUCTION STARTS
= 89.6%	▲ 1.5%	▲ 3,280	▲

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center

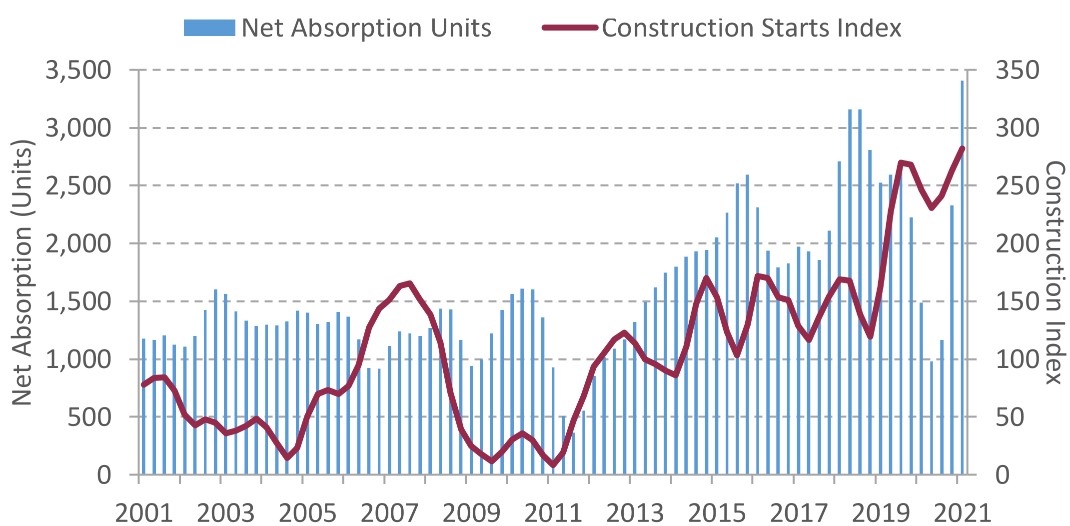
Figure 9. Austin Overall Vacancy and Effective Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

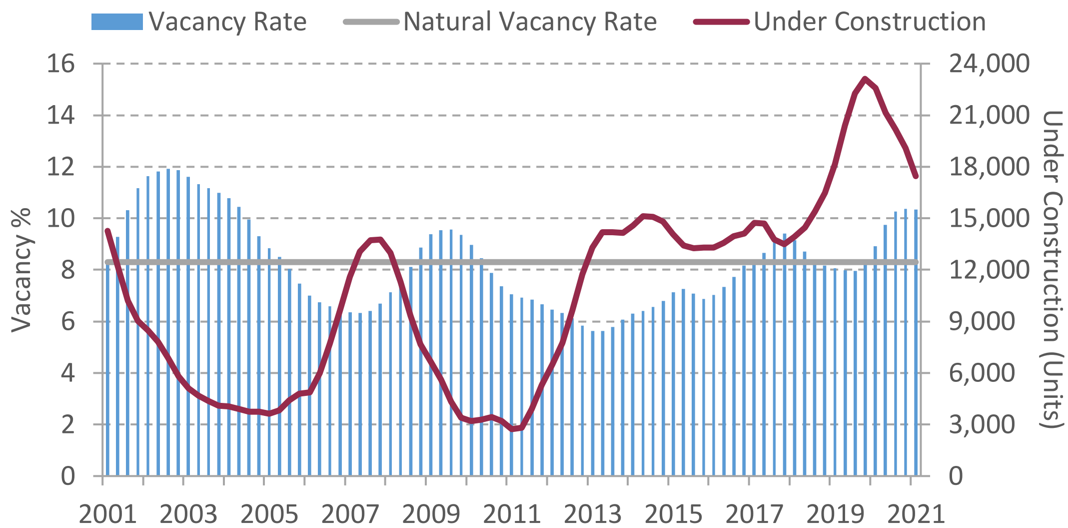
Figure 10. Austin Overall Net Absorption and Construction Starts Index (SA and TC)*

(Index 2000 Q1 = 100)



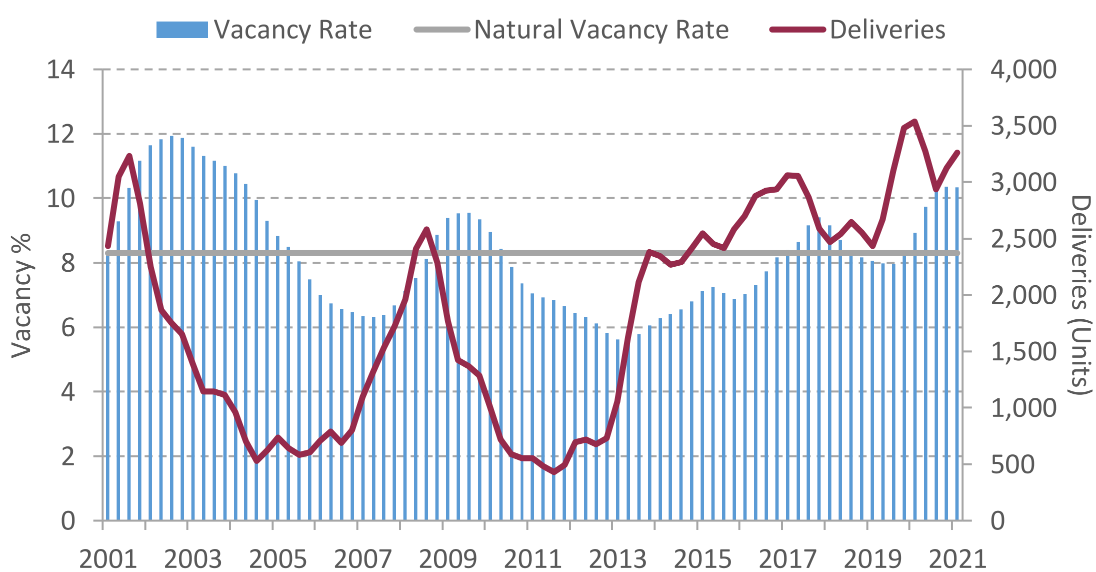
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

Figure 11. Austin Overall Vacancy and Units Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 12. Austin Overall Vacancy and Deliveries in Units (SA and TC)*



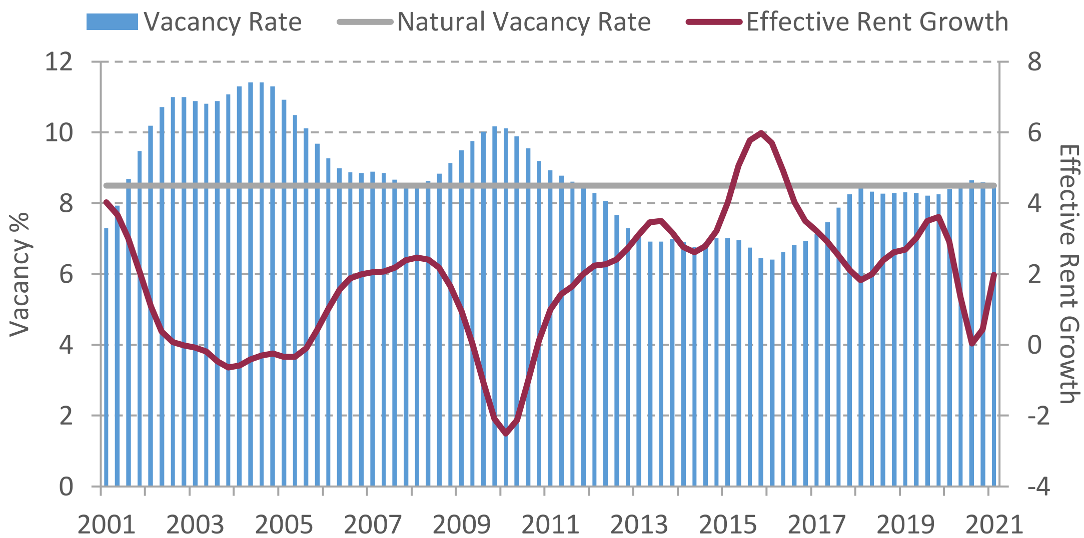
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Dallas-Fort Worth Overall

OCCUPANCY RATE	EFFECTIVE RENT GROWTH (PER UNIT)	NET ABSORPTION (UNITS)	CONSTRUCTION STARTS
= 91.6%	▲ 2.2%	▲ 6,997	▲

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center

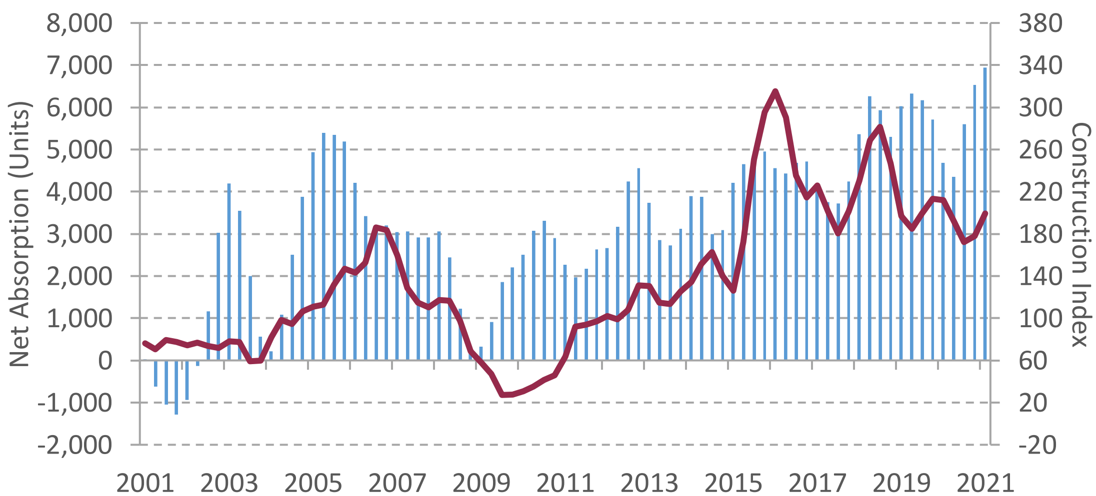
Figure 13. DFW Overall Vacancy and Effective Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

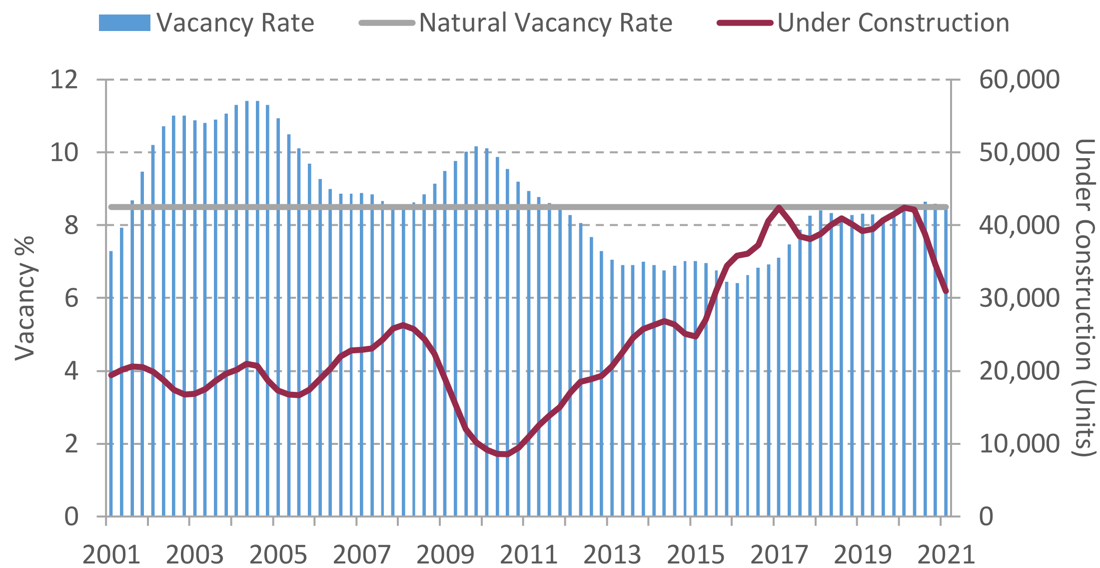
Figure 14. DFW Overall Net Absorption and Construction Starts Index (SA and TC)*

(Index 2000 Q1 = 100)



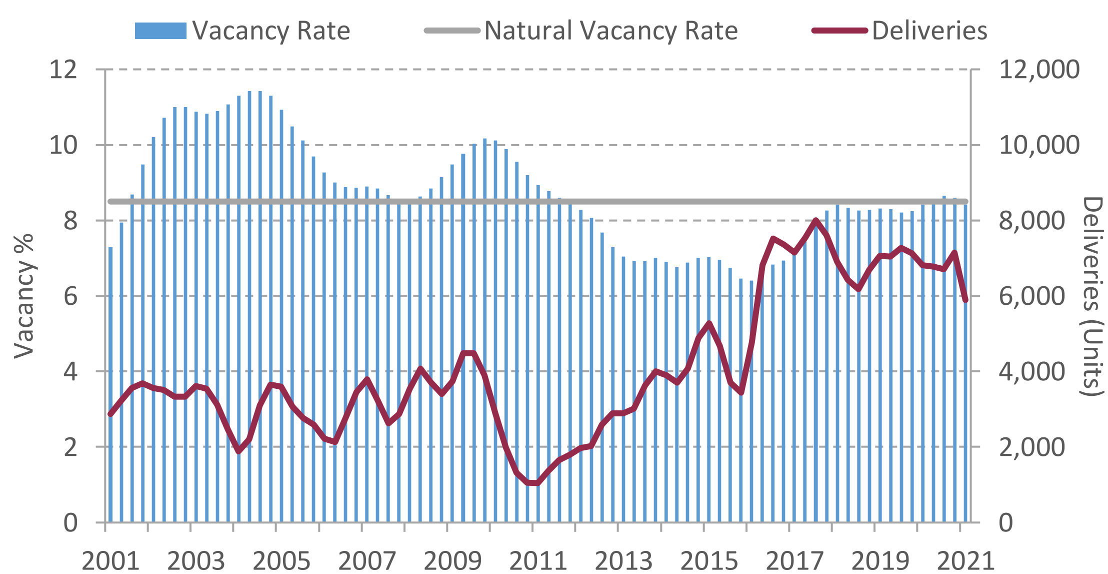
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

Figure 15. DFW Overall Vacancy and Units Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 16. DFW Overall Vacancy and Deliveries in Units (SA and TC)*



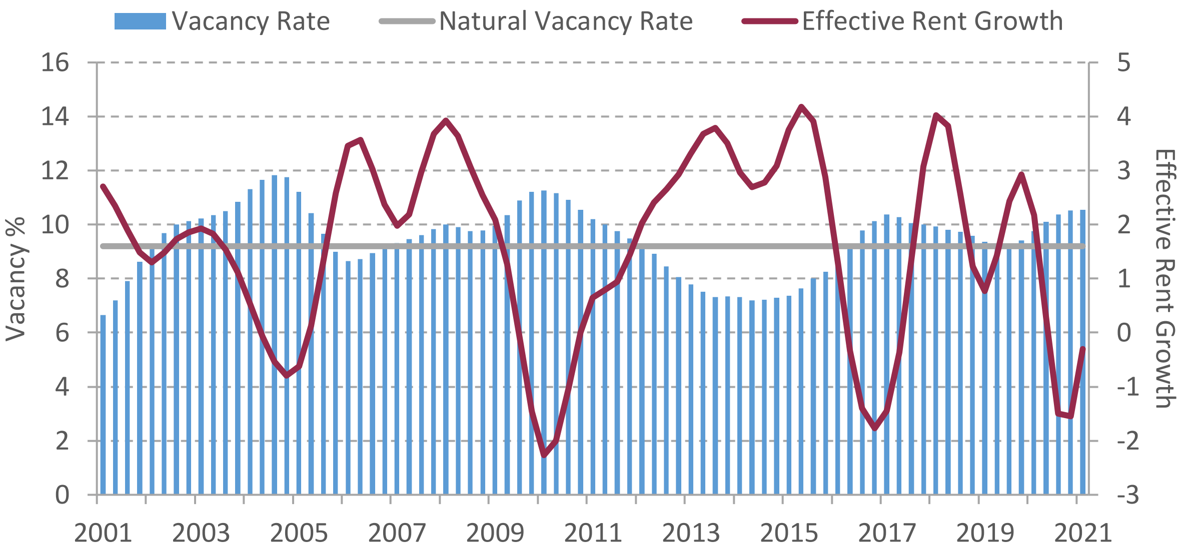
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Houston Overall

OCCUPANCY RATE	EFFECTIVE RENT GROWTH (PER UNIT)	NET ABSORPTION (UNITS)	CONSTRUCTION STARTS
89.5%	-0.9%	4,418	

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center

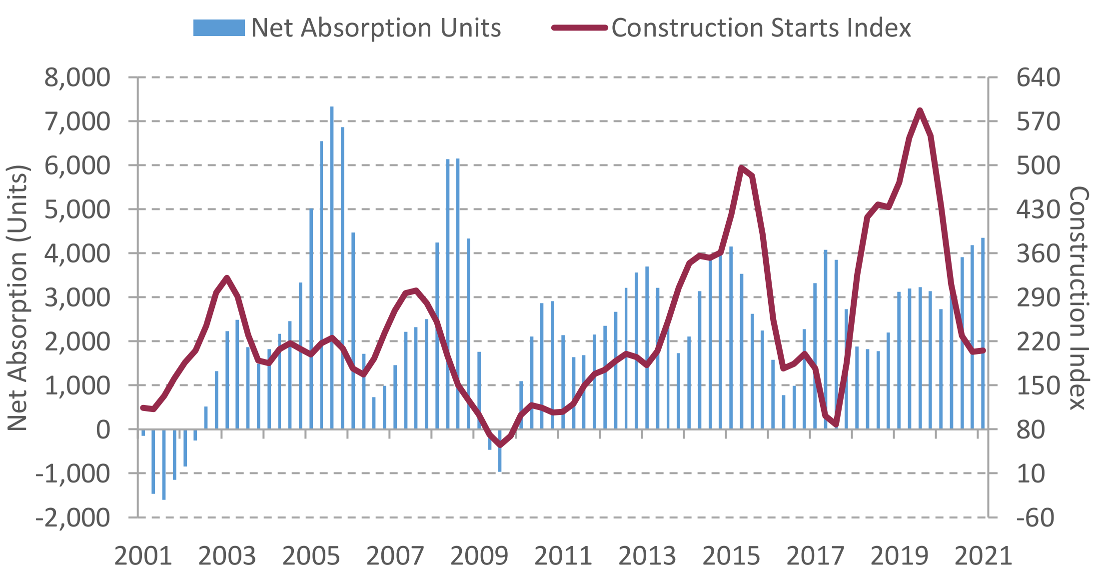
Figure 17. Houston Overall Vacancy and Effective Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

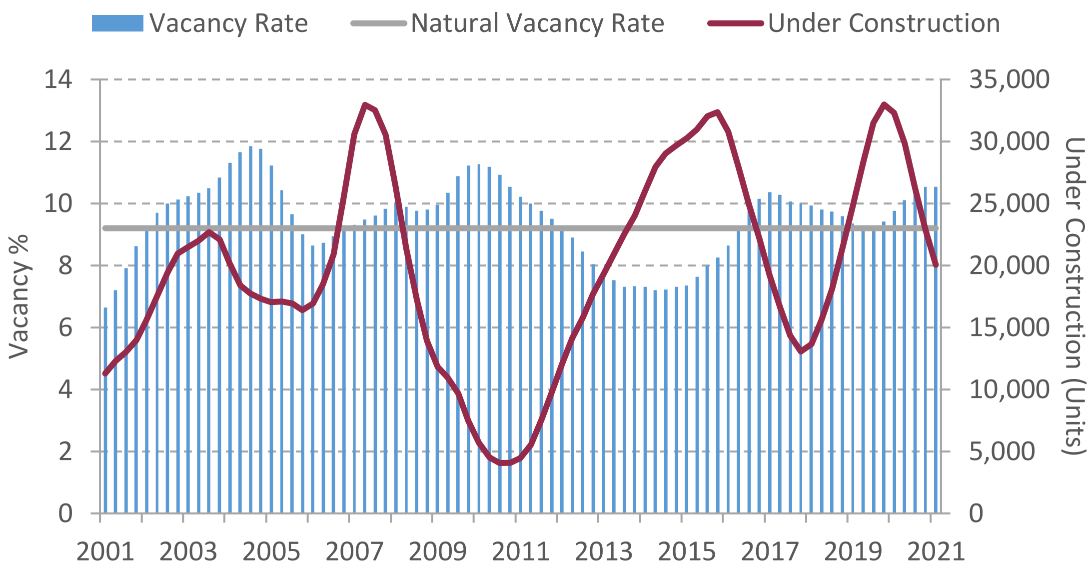
Figure 18. Houston Overall Net Absorption and Construction Starts Index (SA and TC)*

(Index 2000 Q1 = 100)



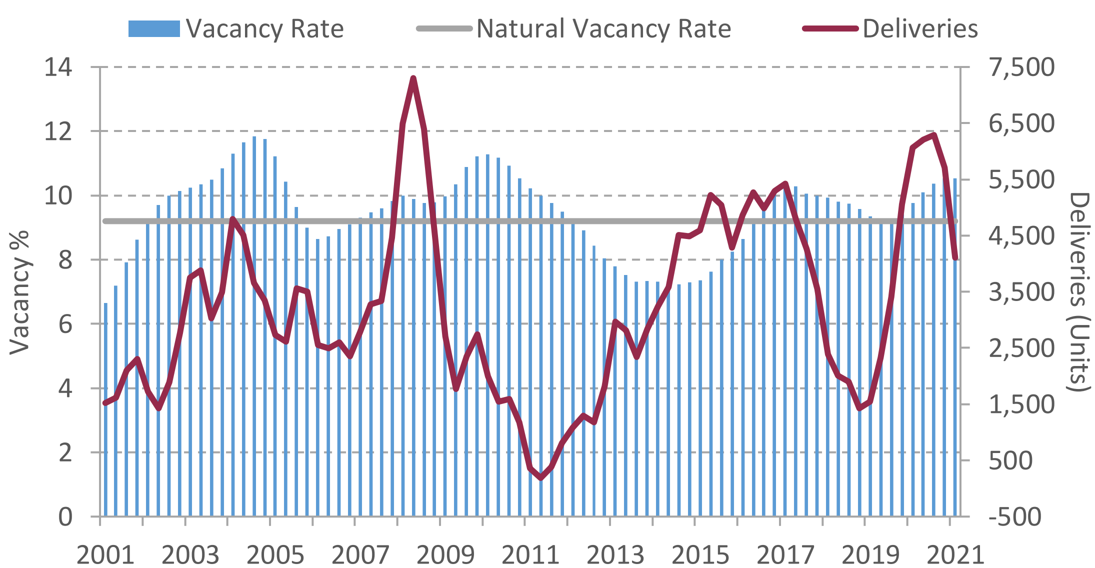
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

Figure 19. Houston Overall Vacancy and Units Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 20. Houston Overall Vacancy and Deliveries in Units (SA and TC)*



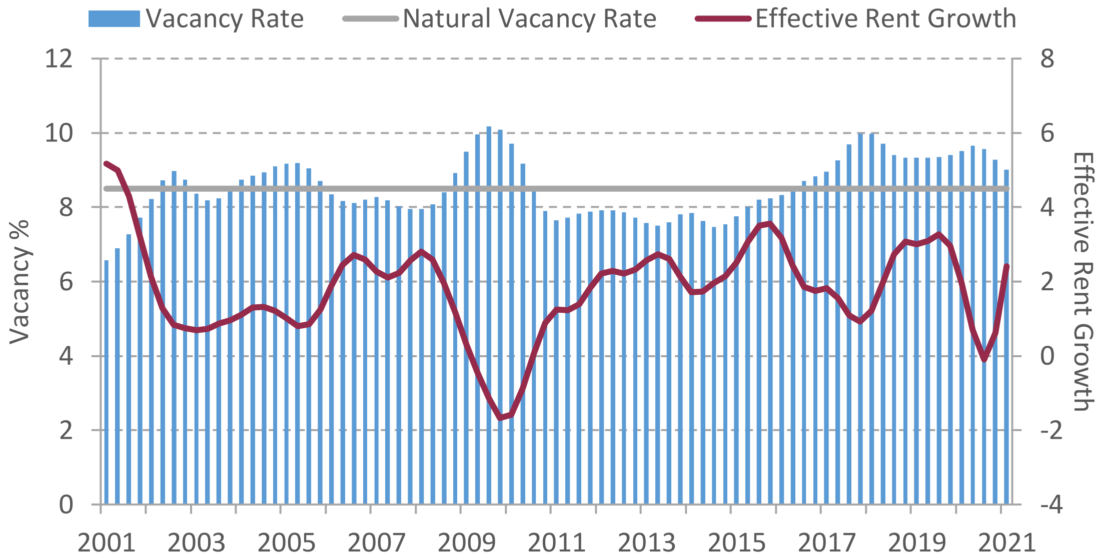
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

San Antonio Overall

OCCUPANCY RATE	EFFECTIVE RENT GROWTH (PER UNIT)	NET ABSORPTION (UNITS)	CONSTRUCTION STARTS
91.0%	2.6%	1,472	

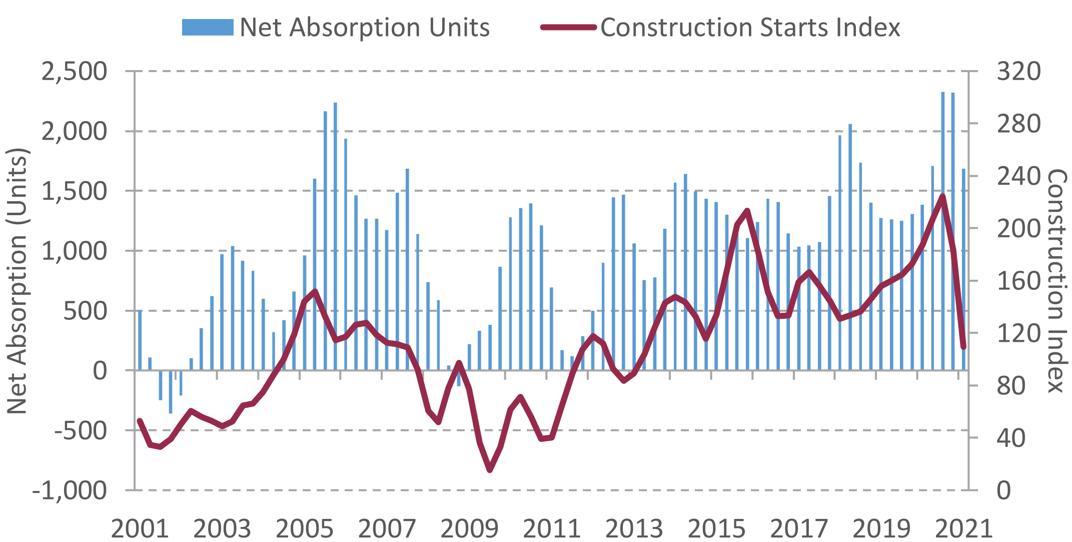
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center

Figure 21. San Antonio Overall Vacancy and Effective Rent Growth (SA and TC)*



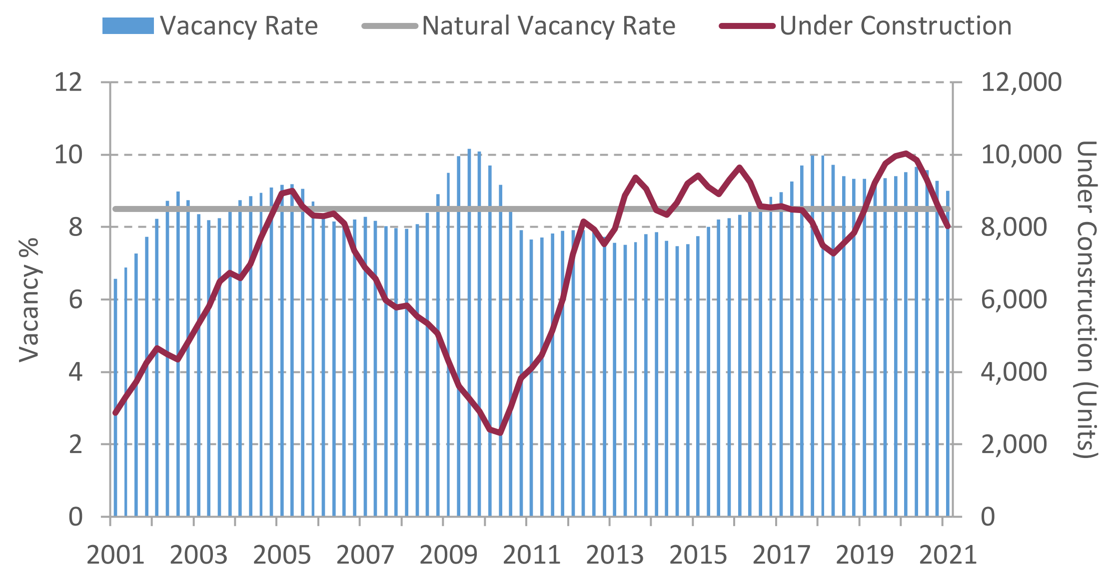
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 22. San Antonio Overall Net Absorption and Construction Starts Index (SA and TC)*
(Index 2000 Q1 = 100)



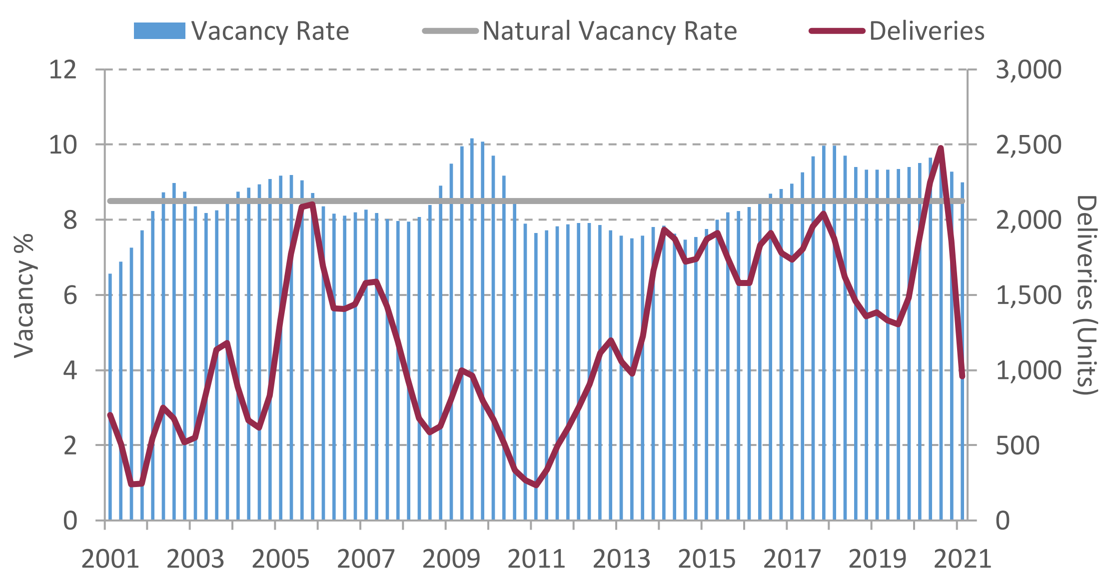
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

Figure 23. San Antonio Overall Vacancy and Units Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 24. San Antonio Overall Vacancy and Deliveries in Units (SA and TC)*



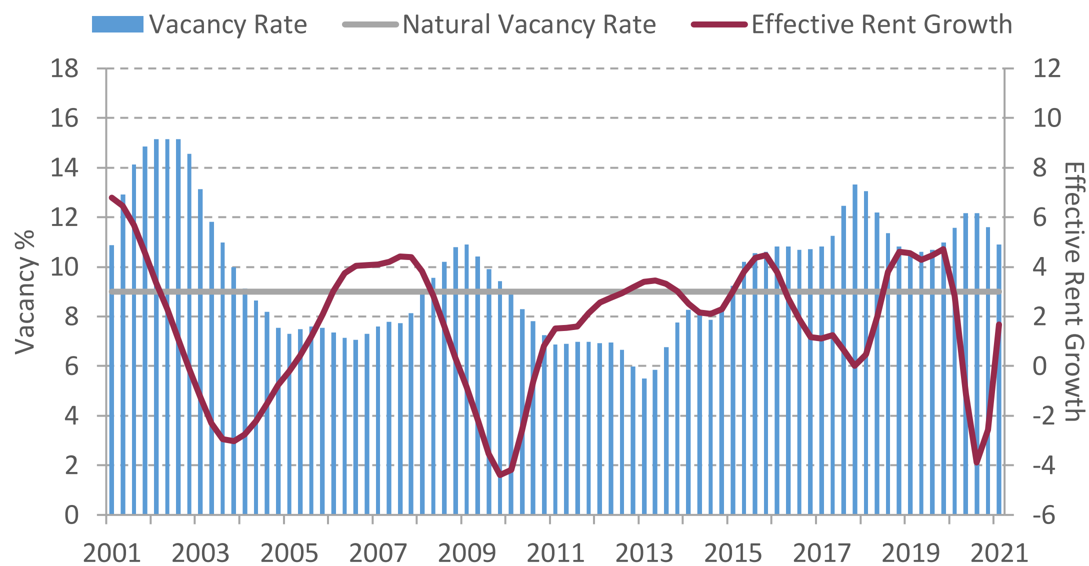
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Austin Class A

OCCUPANCY RATE	EFFECTIVE RENT GROWTH (PER UNIT)	NET ABSORPTION (UNITS)	CONSTRUCTION STARTS
▲ 89.1%	▲ 2.2%	▼ 1,806	▲

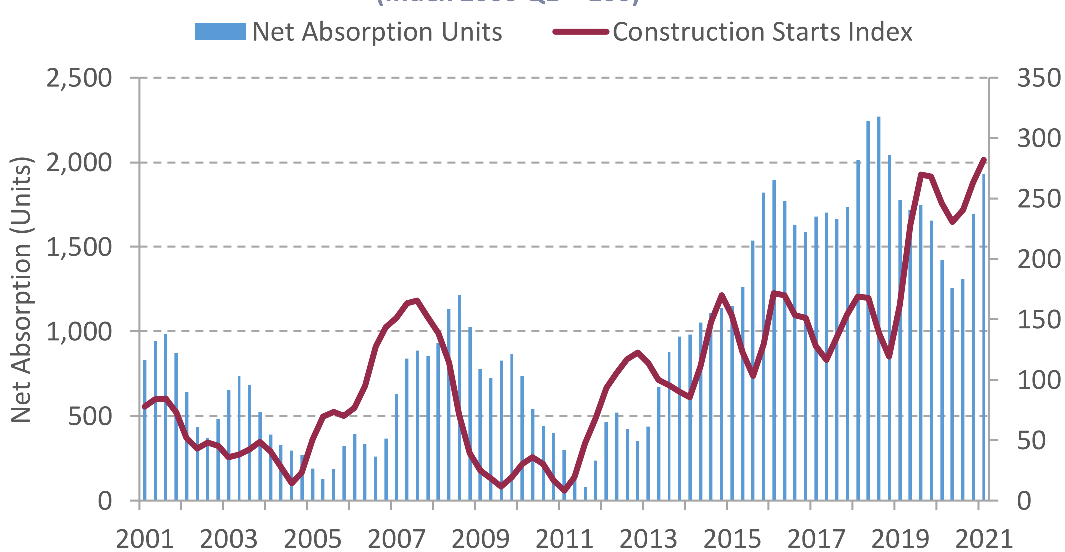
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center

Figure 25. Austin Class A Vacancy and Effective Rent Growth (SA and TC)*



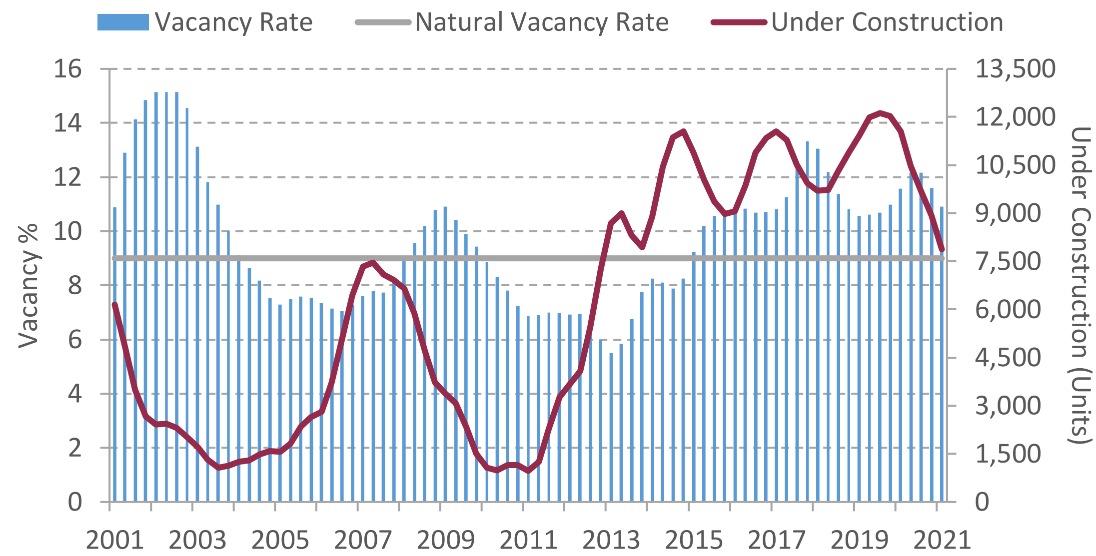
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 26. Austin Class A Net Absorption and Construction Starts Index (SA and TC)*
(Index 2000 Q1 = 100)



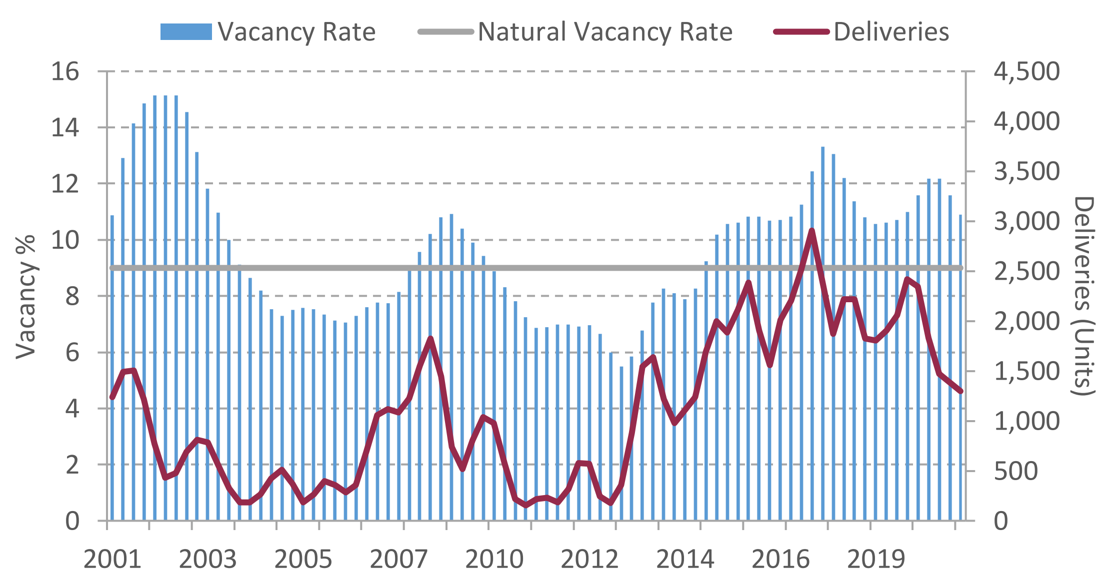
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

Figure 27. Austin Class A Vacancy and Units Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 28. Austin Class A Vacancy and Deliveries in Units (SA and TC)*



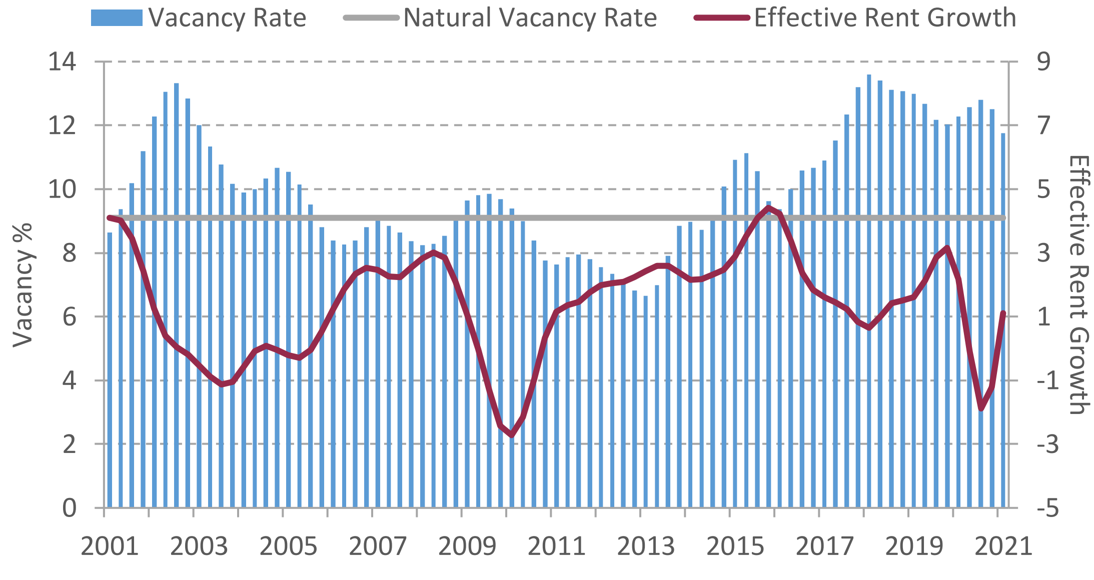
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Dallas-Fort Worth Class A

OCCUPANCY RATE	EFFECTIVE RENT GROWTH (PER UNIT)	NET ABSORPTION (UNITS)	CONSTRUCTION STARTS
▲ 88.4%	▲ 1.3%	▲ 5,772	▲

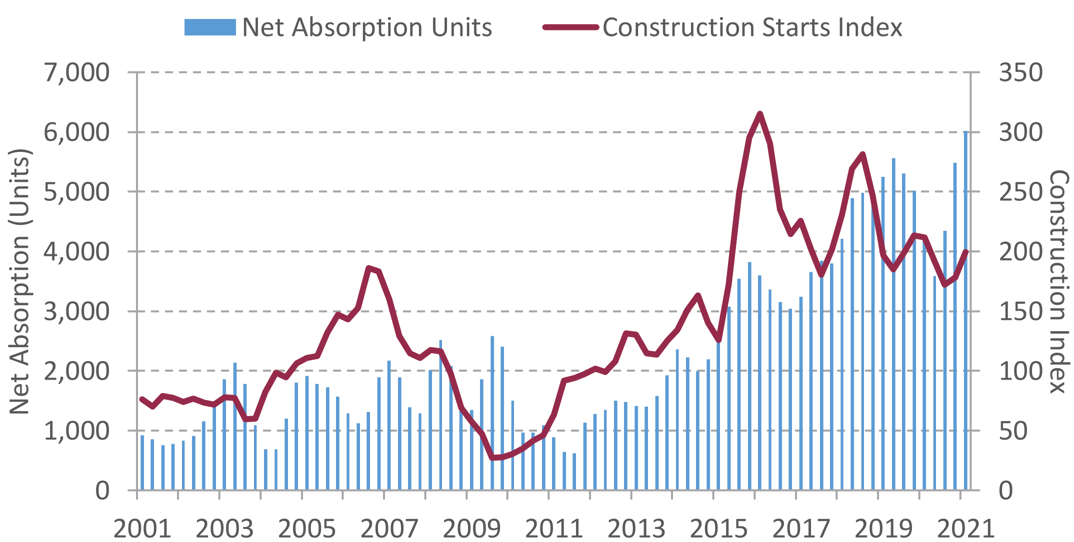
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center

Figure 29. DFW Class A Vacancy and Effective Rent Growth (SA and TC)*



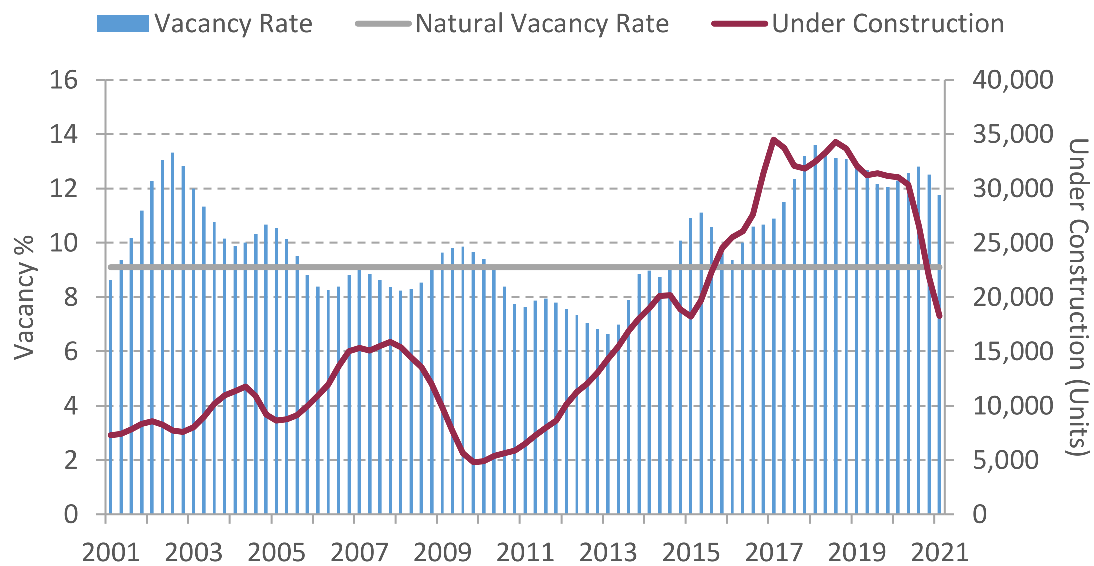
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 30. DFW Class A Net Absorption and Construction Starts Index (SA and TC)*
(Index 2000 Q1 = 100)



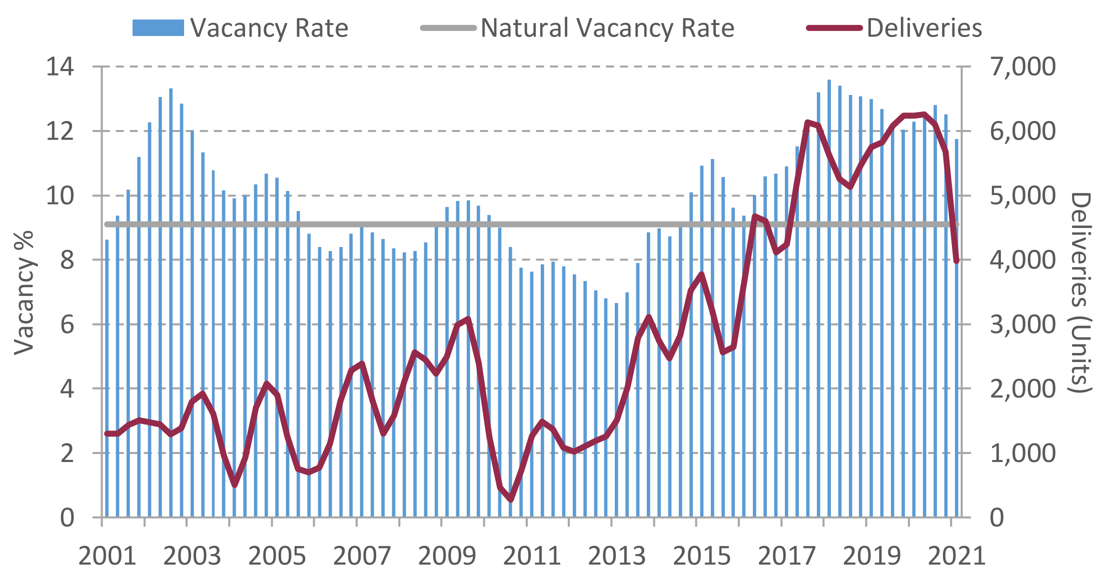
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

Figure 31. DFW Class A Vacancy and Units Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 32. DFW Class A Vacancy and Deliveries in Units (SA and TC)*



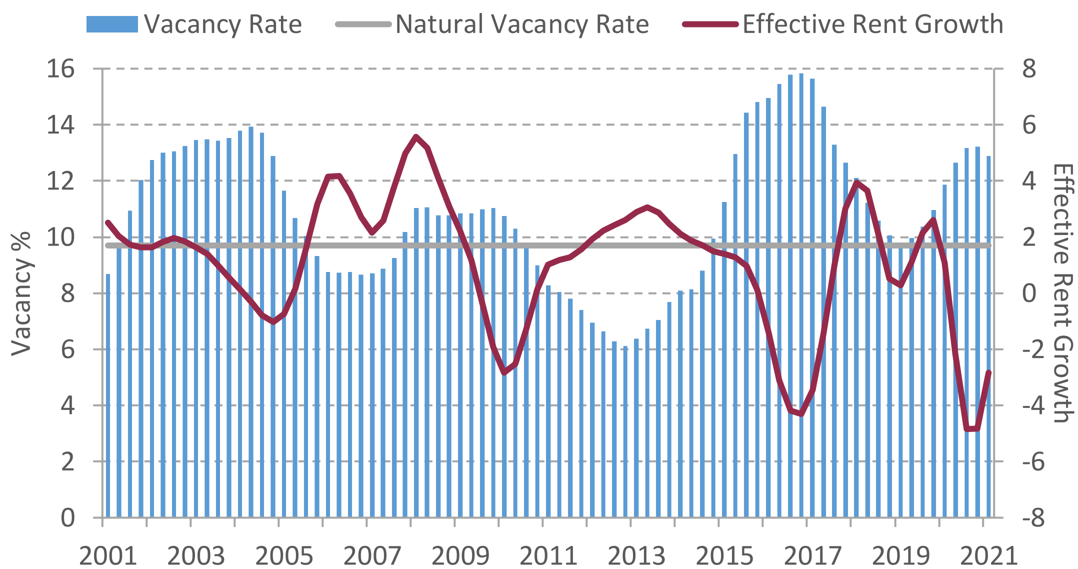
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Houston Class A

OCCUPANCY RATE	EFFECTIVE RENT GROWTH (PER UNIT)	NET ABSORPTION (UNITS)	CONSTRUCTION STARTS
▲ 87.4%	▲ -2.5%	▲ 3,947	▼

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center

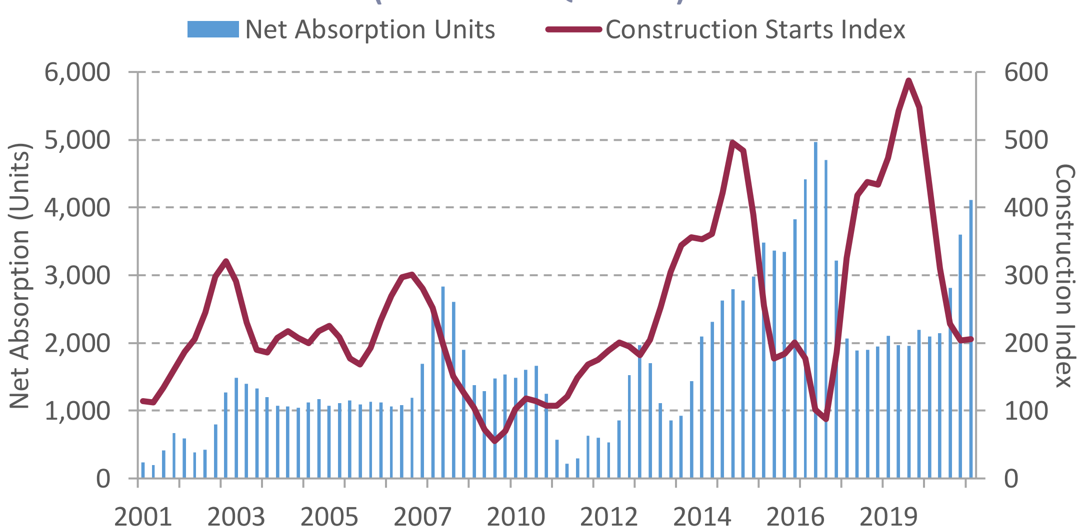
Figure 33. Houston Class A Vacancy and Effective Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

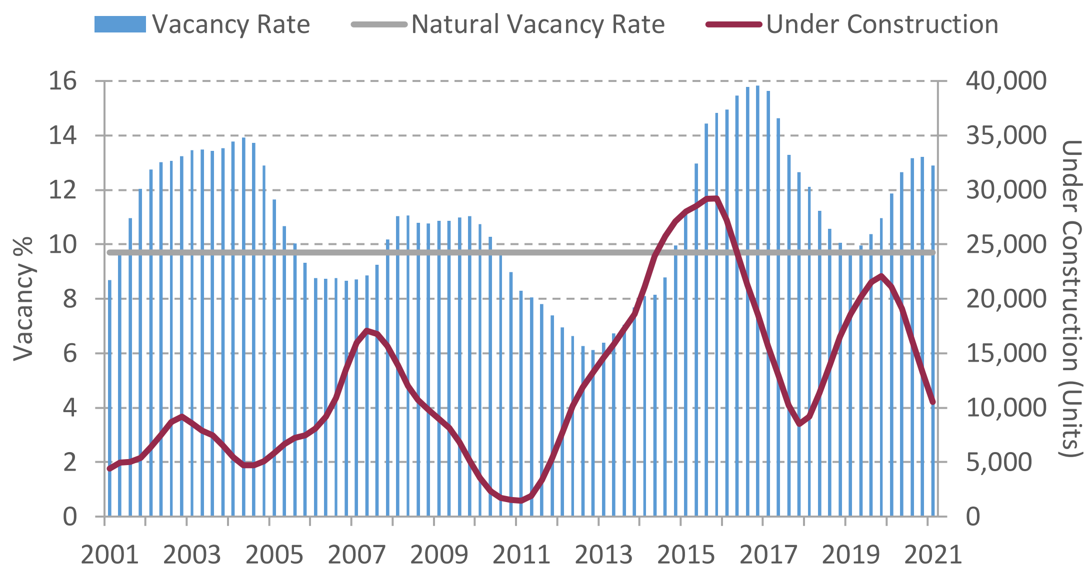
Figure 34. Houston Class A Net Absorption and Construction Starts Index (SA and TC)*

(Index 2000 Q1 = 100)



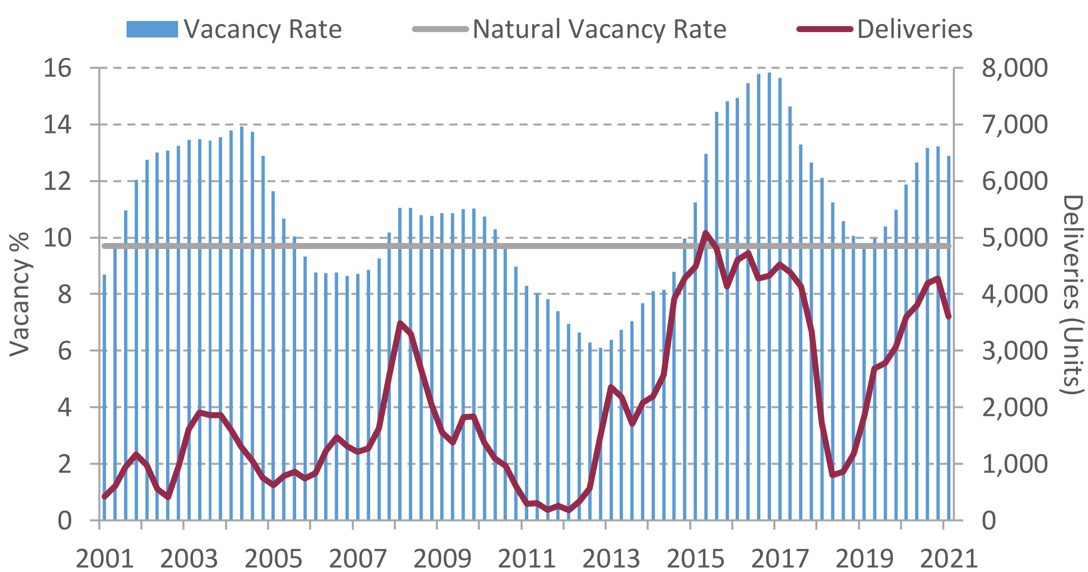
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

Figure 35. Houston Class A Vacancy and Units Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 36. Houston Class A Vacancy and Deliveries in Units (SA and TC)*



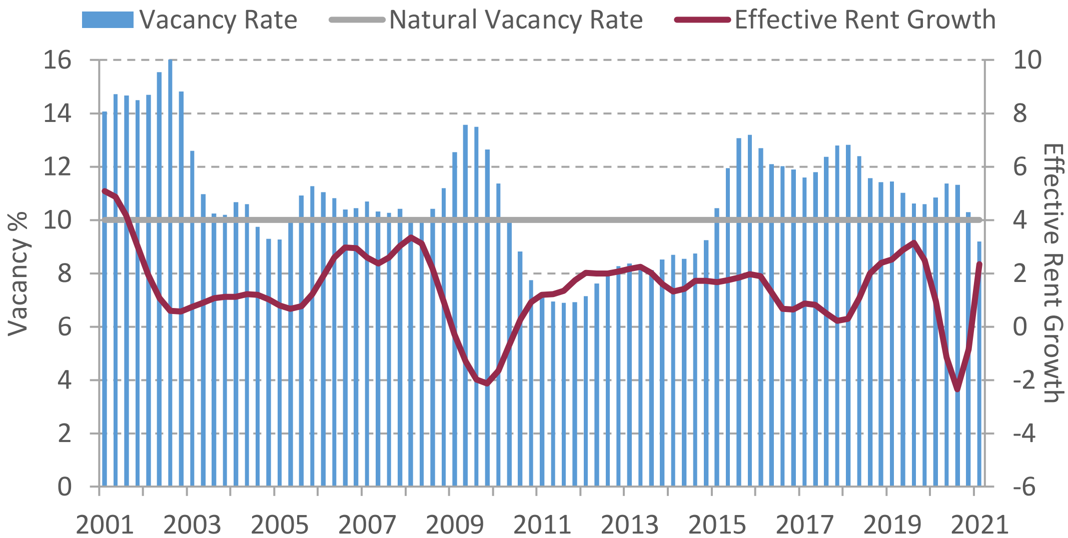
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

San Antonio Class A

OCCUPANCY RATE	EFFECTIVE RENT GROWTH (PER UNIT)	NET ABSORPTION (UNITS)	CONSTRUCTION STARTS
▲ 90.7%	▲ 3.1%	▼ 810	▼

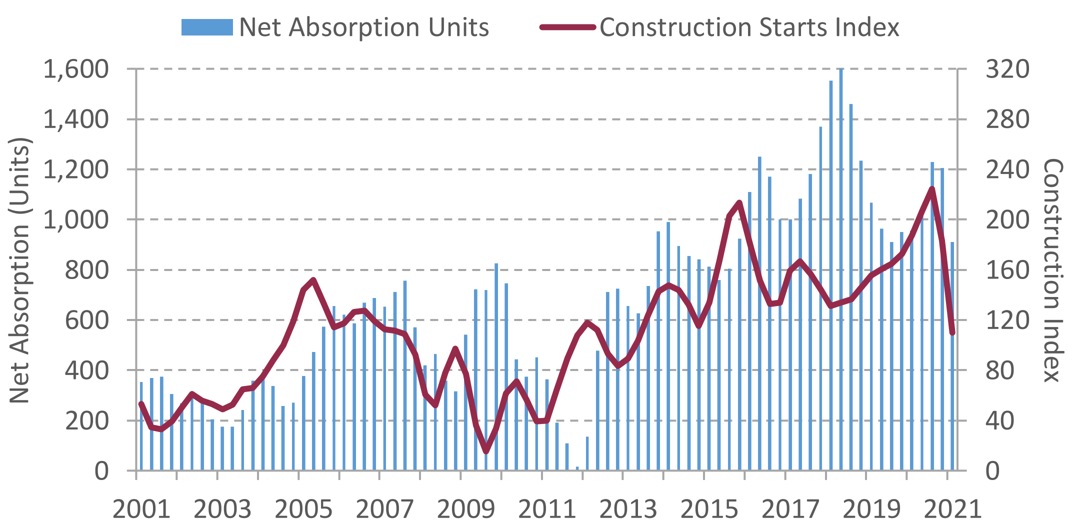
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center

Figure 37. San Antonio Class A Vacancy and Effective Rent Growth (SA and TC)*



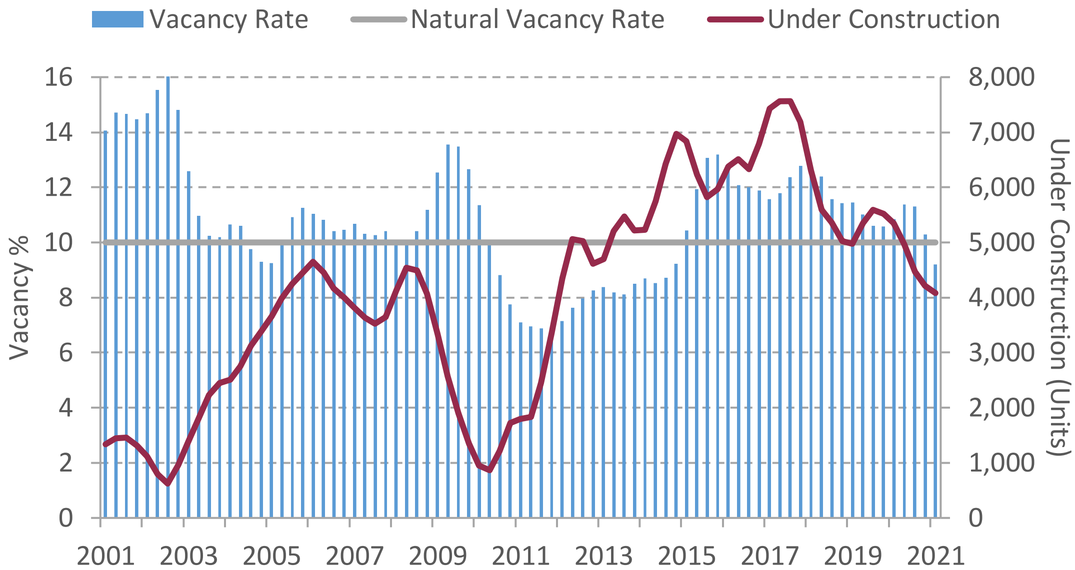
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 38. San Antonio Class A Net Absorption and Construction Starts Index (SA and TC)*
(Index 2000 Q1 = 100)



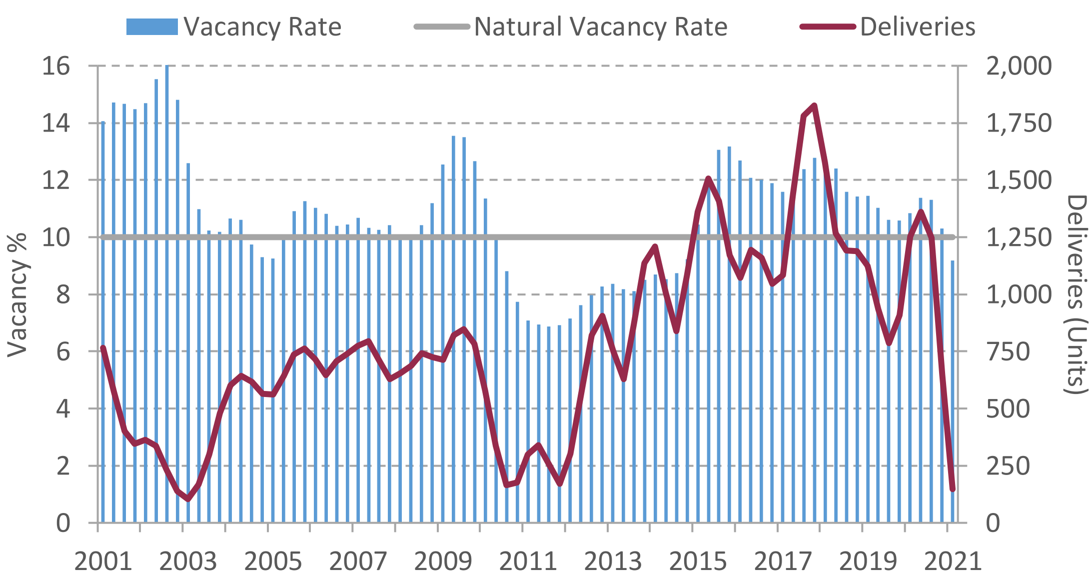
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

Figure 39. San Antonio Class A Vacancy and Units Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 40. San Antonio Class A Vacancy and Deliveries in Units (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Definitions

Capitalization rate/cap rate:

The cap rate is computed by dividing expected net operating income (NOI) generated from the property by the current property value (V) and expressing it as a percentage. NOI is rent minus the owner's share of expenses, such as taxes, insurance, maintenance, and management costs. Mortgage costs and any other costs of financing are not included in expenses.

In general, the higher the cap rate, the higher the risk. Investors compare cap rates for potential projects with their cost of funds when selecting investment projects, considering only those investments where the cap rates exceed the cost of funds.

Risk can be estimated by computing the "spread," the difference between the cap rate and some risk-free rate. Because commercial real estate investments are expected to generate streams of income over a long period, investors commonly use the U.S. ten-year Treasury rate as a risk-free rate.

Construction Starts Index: Reflects the dollar value of construction starts in relation to a specified base year (1Q2000) and is a precursor to future units under construction.

Dodge Analytics tracks commercial construction start figures as soon as a new project kicks off to estimate its total construction "value," which is essentially total construction cost. We realize some real estate professionals may question whether calling the total dollars to be spent on a project's "construction value" equates to its "market value" at completion. However, for consistency, this report will use Dodge's terminology.

Effective rents: Leases typically dictate this amount to be paid monthly.

Natural and actual vacancy:

The natural vacancy rate represents the point at which zero real (inflation-adjusted) rent growth will occur. Natural vacancy reflects the level to which vacancy rates adjust over the long term.

The actual vacancy rate reflects the seasonally adjusted and trend-cycled natural vacancy rate. The actual vacancy rate smooths the raw data by removing fluctuations created by seasonal and time trends.

Natural vacancies for the possibility of new construction are calculated separately using historical construction data. The calculated natural vacancies were compared with the actual vacancies to estimate whether new development should be expected in the various commercial real estate markets. When actual vacancy in a local market falls below natural vacancy, developers may consider building new space.

A comparison of natural vacancy and actual vacancy along with historical vacancy trends allows researchers to anticipate the direction of commercial real estate (CRE) rental rates in real terms. When actual vacancy in a local market falls below (rises above) natural vacancy, building managers may consider increasing (decreasing) rents.

Aggregate natural vacancy in an overall market may not reflect the trigger vacancy rate an individual CRE professional uses to make decisions affecting a specific property or project. However, these measures indicate the direction of rents and new construction.

Net Absorption: The net change in occupied space, measured in units, over a given period. Net absorption reflects the amount of space occupied as well as the amount of space vacated.

Nominal: Value or rate that reflects current prices or rates, without adjusting for inflation.

Seasonal Adjustment: A statistical method for removing the seasonal component of a time series that exhibits a seasonal pattern.

Trend-cycle component: Removes the effects of accumulating data sets from a trend to show only the absolute changes in values and to allow potential cyclical patterns to be identified.

Under Construction: Reflects the number of units under construction within a particular market; applies to buildings that have not received a certificate of occupancy.

Vacancy Rate: A measurement expressed as a percentage of the total amount of physically vacant units divided by the total amount of existing inventory.

TEXAS A&M UNIVERSITY
Texas Real Estate Research Center
EST 1971

MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

http://recenter.tamu.edu
979-845-2031

LinkedIn
linkedin.com/company/recentertx

Instagram
@recentertx

YouTube
YouTube.com/realestatecenter

Facebook
@recentertx

Twitter
@recentertx