

Texas Quarterly Apartment Report



Dr. James P. Gaines
CHIEF ECONOMIST

Dr. Luis B. Torres
RESEARCH ECONOMIST

Dr. Harold D. Hunt
RESEARCH ECONOMIST

Clare Losey
RESEARCH ASSISTANT

Trenton Forbes
RESEARCH INTERN



TEXAS A&M UNIVERSITY

Real Estate Center

TECHNICAL REPORT
2 2 4 2
SECOND QUARTER 2019

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Texas Quarterly Apartment Report: 2019 Forecast

DALLAS FORT WORTH

	OCCUPANCY RATES	ASKING RENTS
OVERALL	92.1% ▲	3.1% ▲
CLASS A	87.7% ▲	2.3% ▲

AUSTIN

	OCCUPANCY RATES	ASKING RENTS
OVERALL	92.6% ▲	4.6% ▼
CLASS A	90.7% ▼	4.3% ▼

SAN ANTONIO

	OCCUPANCY RATES	ASKING RENTS
OVERALL	91.5% ▲	3.7% ▼
CLASS A	90.6% ▲	2.8% =

HOUSTON

	OCCUPANCY RATES	ASKING RENTS
OVERALL	91.0% =	1.4% ▲
CLASS A	91.0% ▲	0.6% ▲



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

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About this Report

Real Estate Center economists continuously monitor multiple facets of the global, national, and Texas economies. The *Texas Quarterly Apartment Report* is a summary of important economic indicators that help discern apartment real estate trends in four major Texas Metropolitan Statistical Areas (MSAs) – Austin, Dallas-Fort Worth, Houston, and San Antonio.

All quarterly measurements are calculated using seasonally and trend-cycle adjusted data, while percentage changes reflect nominal year-over-year estimates, unless stated otherwise. Seasonal adjustment smooths the quarterly fluctuations in the data. The figures are trend-cycle adjusted, which provides a clearer, less volatile view of upward and downward movements. This methodology enriches 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. Data are from ALN Apartment Data and CoStar.

This publication provides data and insights on 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. James Gaines, Dr. Luis Torres, Dr. Harold Hunt, Clare Losey, and Trenton Forbes

Texas Economic Overview

The Texas economy remained strong in the midst of the longest U.S. expansion. Payroll employment grew at a steady pace, and unemployment remained historically low. Headline wage growth rate levels were sluggish despite labor-market tightness and decreased inflationary pressure. Low interest rates and job growth supported commercial investments and pushed housing sales to a record high. Total commodity exports stalled in the first quarter and could continue to struggle amid the ongoing U.S.-China trade spat. Political tension, trade uncertainty, and a slowdown in the global economy present the greatest challenges to extending the current expansion. For additional commentary and statistics, see *Outlook for the Texas Economy* at recenter.tamu.edu.

The Texas Residential Construction Cycle (Coincident) Index, which measures current units under construction, followed the downward trend of the Texas Residential Construction Cycle (Leading) Index. A slowdown in construction permits hindered the Residential Construction (Leading) Index, pointing to slower residential construction going forward. Only the DFW leading index pointed toward a construction slowdown while the Austin, Houston, and San Antonio indices pointed toward higher activity. Overall market trends for the majority of Texas areas (metropolitan and micro) show positive occupancy rate growth combined with positive rent growth. Only Bryan-College Station and Lufkin registered negative rent growth. With the supply of single-family starter homes being constrained, young adults continue to rent units in the apartment sector.

The outlook for the rest of 2019 appears to be positive for the major Texas MSAs due to the strength of the U.S. and Texas economies. Interest rates should continue to remain low as inflation pressure remains subdued combined with low future growth expectations. On the negative side, a declining trade environment and a slowing world economy are the greatest headwinds to the Texas economy, challenging some of the state's most productive industries like oil and manufacturing. The U.S. economy is already showing signs of a slowdown in 2019 and a return to its expected growth potential of around 2 percent.

Austin's overall economic activity improved in 2Q2019 from the first quarter as job growth continued its upward trend, and the unemployment rate continued to fall. Employment continued to climb in Dallas-Fort Worth (DFW) with both the goods and services sector registering strong job growth. In Houston, the overall outlook remains positive, supported by a strong U.S. economy, although at a slower pace than during the oil boom. San Antonio's job growth continued strong in 2Q2019.

Overall Apartment Sector Forecast

Table 1. Overall Apartment Forecasted Vacancy Rates, Effective Rents

MSA	Natural Apartment Vacancy Rate	Vacancy Rates (%)			Effective Rent Growth (y-o-y %)		
		2018	2019	2020	2018	2019	2020
Austin	8.3	8.1	7.4	7.2	3.0	3.5	3.4
DFW	8.5	8.1	8.0	7.7	2.6	2.2	3.0
Houston	9.2	9.7	9.1	9.0	3.5	1.2	1.6
San Antonio	8.5	9.3	8.8	8.5	2.8	2.8	3.4

Note: Annual numbers are the four-quarter average of the seasonally adjusted data. The rent growth is nominal, estimated from the previous year's average.

Source: Real Estate Center at Texas A&M University

Austin (see figures 5-8)

Since the end of the recovery from the Great Recession, actual vacancy has generally measured below natural vacancy, with the exception of the latter half of 2017 (3Q2017 and 4Q2017) and 1Q2018. Actual vacancy is expected to average 7.4 percent for 2019 and 7.2 percent for 2020, well below the natural vacancy of 8.3 percent. The decline in actual vacancy should stimulate effective rent growth, which is projected to average 3.5 and 3.4 percent for 2019 and 2020, respectively. Effective rent growth has remained positive since the end of the recovery from the Great Recession but experienced a recent slump, likely a result of the uptick in actual vacancy in 2017 and 2018.

Austin's robust economy and increased demand for housing (population growth) have buoyed a strong amount of units under construction since the end of the recovery from the Great Recession. Despite a slight decline, construction starts (value of construction project starts) remained relatively high, indicating that under-construction numbers should maintain pace. After diminishing since late 2017, deliveries have begun to rapidly climb in the past two quarters. With new deliveries entering the pipeline, Austin may see more modest future rent growth.

Dallas (see figures 9-12)

Following the recovery from the Great Recession, actual vacancy has consistently measured below natural vacancy (8.5 percent). However, between 2016 and 2018 vacancy increased to just under the natural vacancy, remaining just above 8 percent. Actual vacancy is expected to stay below, yet close to, the natural vacancy, averaging 8.0 percent in 2019 and 7.7 percent in

2020. The rise in vacancy is, in part, explained by the large number of units being delivered in recent years. These two factors likely contributed to effective rent growth dampening after peaking in 3Q2015 at 8.7 percent. However, since 1Q2018 effective rent growth has remained steady between 2 and 3 percent and is forecasted at 2.2 and 3.0 percent for 2019 and 2020, respectively.

Units under construction peaked in 3Q2018 after climbing substantially since the recovery from the Great Recession. After peaking in 3Q2018, construction starts have weakened over the past three quarters, suggesting that units under construction may continue to moderate in the near-term. Net absorption has remained positive amidst the strong deliveries in recent years, indicating that population growth has proven sufficient to maintain pace with the increased supply.

Houston (see figures 13-16)

Conditions in Houston's apartment market have moderated since the oil downturn, which began in 2014. Actual vacancy, which surpassed natural vacancy (9.2 percent) in 3Q2016, is expected to average 9.1 and 9.0 percent in 2019 and 2020, respectively. This indicates that rent growth will likely stagnate. Effective rent growth is forecasted to average 1.2 and 1.6 percent in 2019 and 2020, respectively. Rent growth has proven volatile in the wake of the oil downturn, dropping nearly 10 percentage points into the negative range from 2Q2015 to 2Q2017, subsequently rebounding to over 5 percent in 1Q2018. Rent growth has since declined.

Units under construction declined substantially in the immediate aftermath of the oil downturn but has increased steadily since the beginning of 2018. The recent decline in construction starts indicates that units under construction will stagnate in the near-term. Net absorption has remained positive despite the oil downturn. The significant slowdown in deliveries has likely facilitated positive net absorption.

San Antonio (see figures 17-20)

Despite an increase in actual vacancy, effective rent growth is expected to remain fairly robust over 2019 and 2020. Actual vacancy has exceeded natural vacancy (8.5 percent) for 11 consecutive quarters (since 4Q2016). Anticipated actual vacancy should average 8.8 and 8.5 percent in 2019 and 2020, respectively. While effective rent growth declined considerably from 4Q2015 to 4Q2017, it has since rebounded and is forecasted to average 2.8 and 3.4 percent in 2019 and 2020, respectively.

Despite relatively robust construction starts, the units under construction have generally declined over the past several years. Deliveries have drastically declined since late 2017 and are expected to continue this trend should under-construction continue to weaken. This has helped facilitate positive net absorption despite the recent uptick in actual vacancy and in-part accounts for the forecasted rent growth.

Class A Apartment Sector Forecast

Table 2. Class A Apartment Forecasted Vacancy Rates, Effective Rents

MSA	Natural Apartment Vacancy Rate	Vacancy Rates (%)			Effective Rent Growth (y-o-y %)		
		2018	2019	2020	2018	2019	2020
Austin	9.0	10.7	9.3	8.7	2.7	3.3	4.5
DFW	9.1	13.3	12.6	12.3	1.0	1.5	3.0
Houston	9.7	11.1	9.1	10.2	2.6	0.6	2.2
San Antonio	10.0	11.7	9.9	10.2	1.5	2.2	2.0

Note: Annual numbers are the four-quarter average of the seasonally adjusted data. The rent growth is nominal, estimated from the previous year's average.

Source: Real Estate Center at Texas A&M University

Austin (see figures 21-24)

Despite a healthy overall apartment market, Austin's Class A apartment market has struggled to maintain the same level of rent growth. Actual vacancy measured above natural vacancy (9.0 percent) for 17 consecutive quarters, likely the result of the recent spike in deliveries. Anticipated actual vacancy should average 9.3 and 8.7 percent in 2019 and 2020, respectively. In late 2017, effective rent growth approached zero as actual vacancy increased but has since rebounded. Effective rent growth is expected to post solid results in 2019 and 2020 (an average of 3.3 and 4.5 percent, respectively).

After climbing considerably in the aftermath of the Great Recession, units under construction has remained above pre-recessionary levels. High values of construction starts suggest that units under construction should remain robust. After a declining trend beginning in late 2017, deliveries have picked up in the last three quarters. The high volume of units under construction suggests that deliveries should continue to increase in the near-term. Net absorption has increased drastically and remained high since the end of the Great Recession suggesting the construction activity is warranted in order to keep pace with demand.

Dallas-Fort Worth (see figures 25-28)

Actual vacancy has surpassed natural vacancy (9.1 vacancy) for the past 13 consecutive quarters. Based on forecasts, this trend should continue; actual vacancy is expected to average 12.6 and 12.3 percent in 2019 and 2020, respectively. The divergence between actual and natural vacancy will likely keep effective rent growth modest going forward, which is expected

to average a mere 1.5 and 3.0 percent for 2019 and 2020, respectively. Rent growth approached zero in 2Q2018 but has since remained positive.

Units under construction increased significantly in the wake of the Great Recession. However, under construction has diminished in the past three quarters, and deliveries have followed suit in response to the recent decline in construction starts. Despite the uptick in actual vacancy and peaks in deliveries, positive net absorption indicates strong demand for the MSA.

Houston (see figures 29-32)

Houston's Class A apartment market struggled in the wake of the oil downturn that began in 2014. 1Q2019 marked the first time in 17 consecutive quarters (4Q2014-4Q2018) that actual vacancy dropped below natural vacancy (9.7 percent). Despite vacancy being in decline after peaking in 1Q2017, it is expected to moderate, averaging 9.1 and 10.2 percent in 2019 and 2020, respectively. Effective rent growth declined considerably in the wake of the oil downturn, falling to nearly -6.0 percent in 4Q2016 before subsequently climbing and falling again. The decline in actual vacancy should bolster rent growth, which is anticipated to average 0.6 and 2.2 percent in 2019 and 2020, respectively.

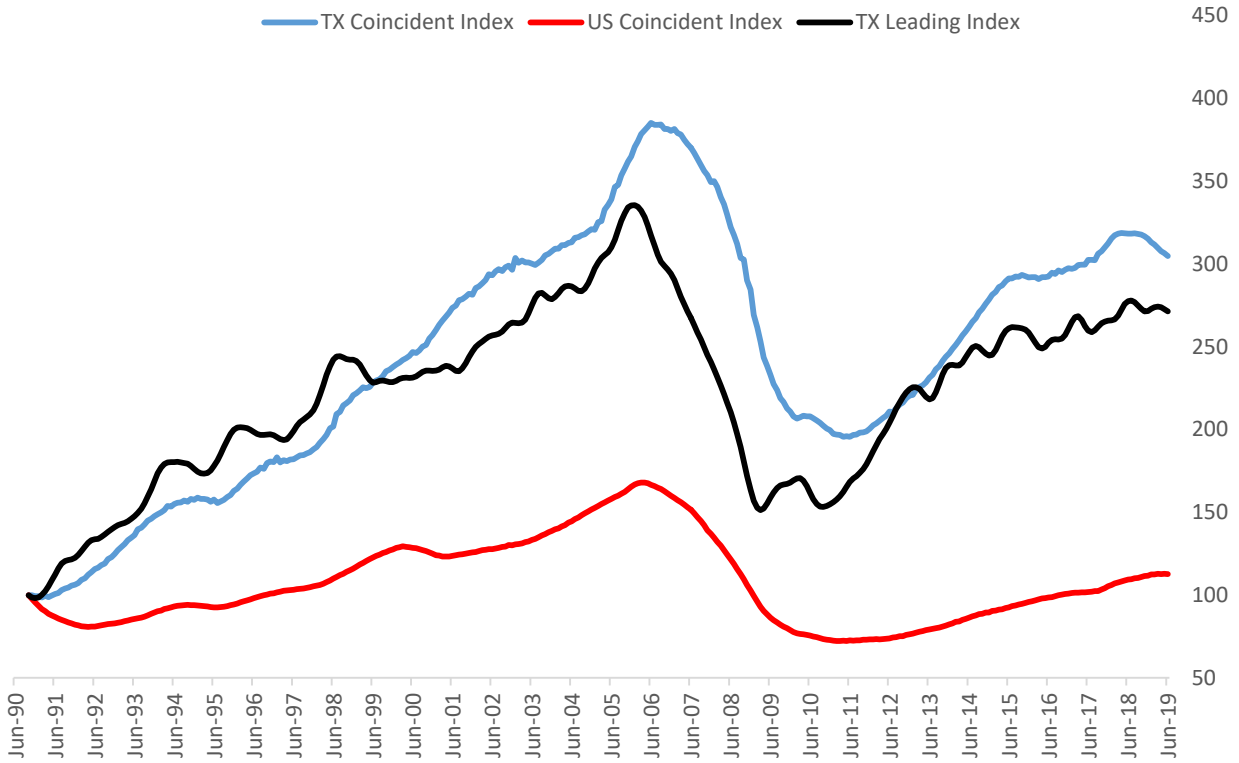
The units under construction increased considerably in the wake of the Great Recession before falling in the midst of the oil downturn. Despite the downturn, net absorption remained positive, likely buoyed by the significant reduction of deliveries in its aftermath. The recent decline in construction starts indicates that units under construction should slow in the near term. Declining vacancy and deliveries have kept net absorption strong.

San Antonio (see figures 33-36)

This quarter (2Q2019), actual vacancy (9.4 percent) dropped below natural vacancy (10 percent) for the first time in 16 consecutive quarters (2Q2015-1Q2019). Vacancy is expected to hover around the natural vacancy, averaging 9.9 and 10.2 percent in 2019 and 2020, respectively. Effective rent growth has been climbing since mid-2017 due to the declining vacancy rates. However, like the actual vacancy, effective rent growth is expected to moderate, averaging 2.2 and 2.0 percent in 2019 and 2020, respectively.

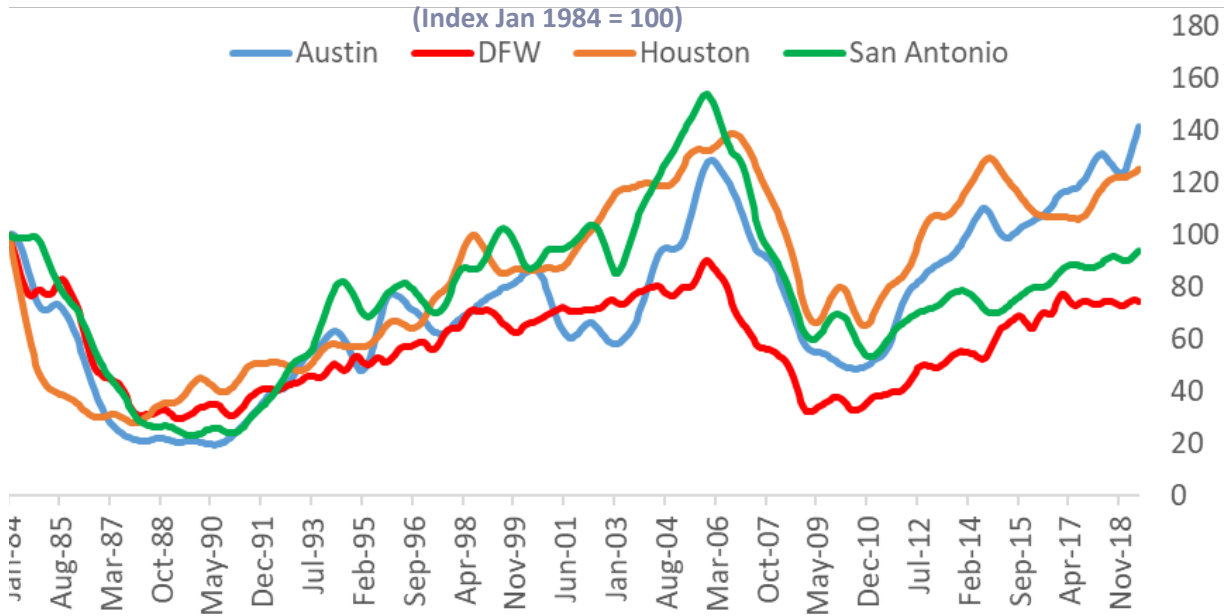
Construction starts have moderately trended downward since mid-2015, suggesting that units under construction will continue to decline as they have been since 2017. Despite high vacancy rates, the large decline in deliveries has supported strong net absorption.

Figure 1. Texas Residential Construction Index
(Index Oct 1990 = 100)



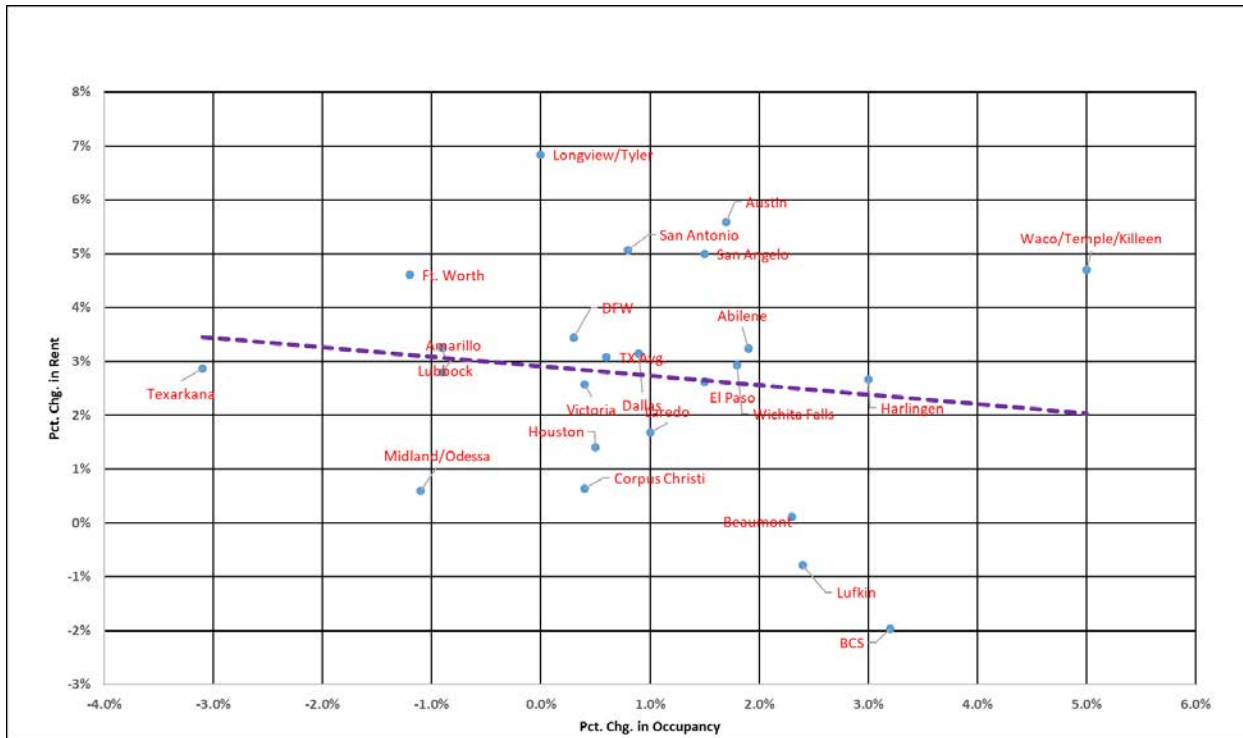
Source: Real Estate Center at Texas A&M University

Figure 2. Major MSAs' Residential Construction Leading Index



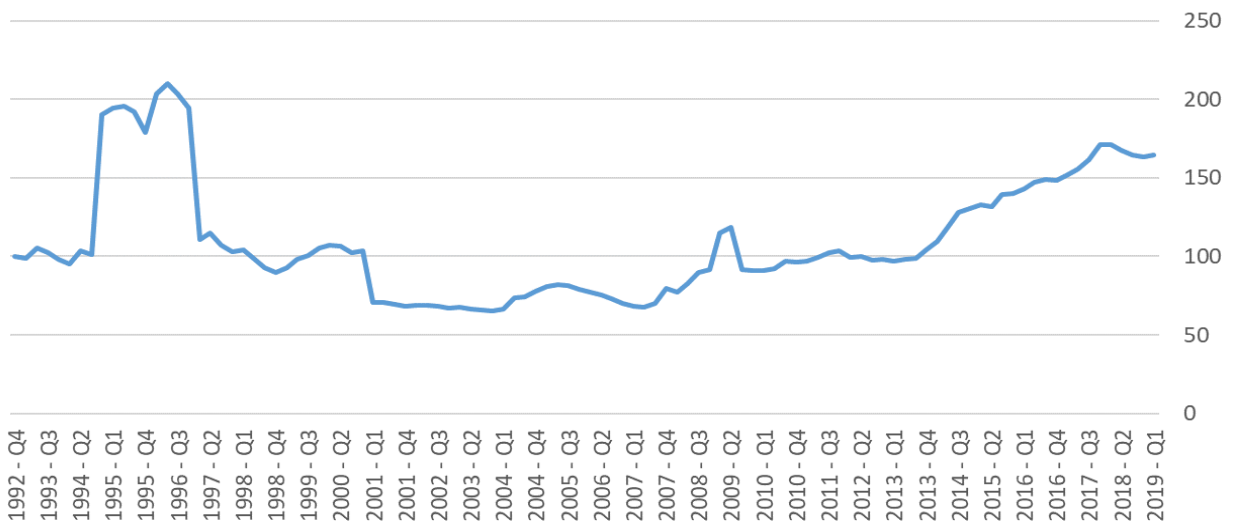
Source: Real Estate Center at Texas A&M University

Figure 3. Overall Apartment Market Percent Changes in Effective Rent and Occupancy
(Jun-18 to Jun-19, y-o-y %)



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

Figure 4. Real Multifamily Domestic Loans
(Index 1992Q4=100)
Multifamily Domestic Loans



Note: Seasonally adjusted and inflation adjusted.

Source: Federal Deposit Insurance

Austin Overall

OCCUPANCY RATE
▲ 92.6%

EFFECTIVE RENT GROWTH (PER UNIT)
▼ 4.6%

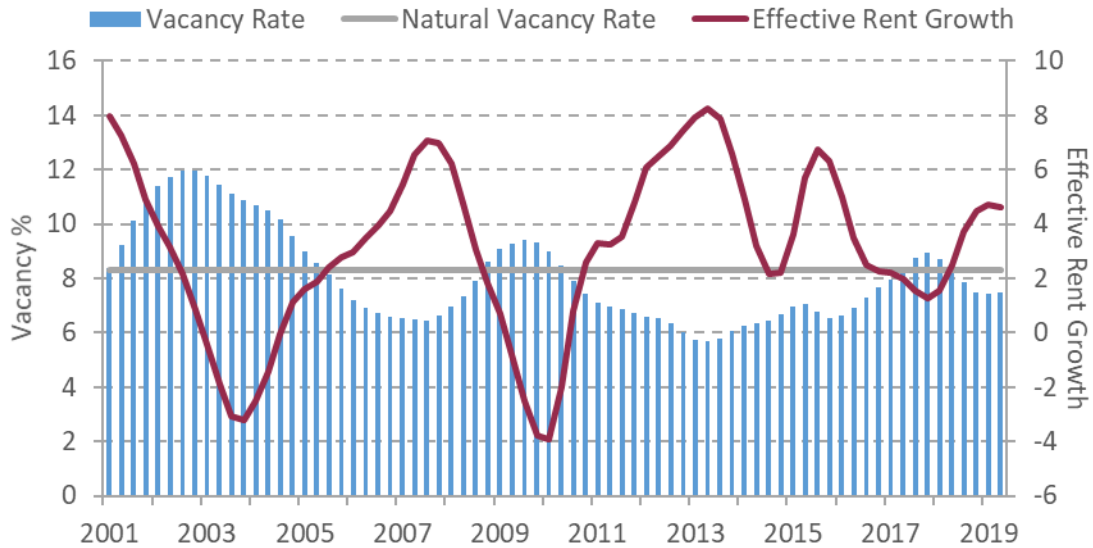
NET ABSORPTION (UNITS)
▲ 3,237

CONSTRUCTION STARTS
▲

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

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

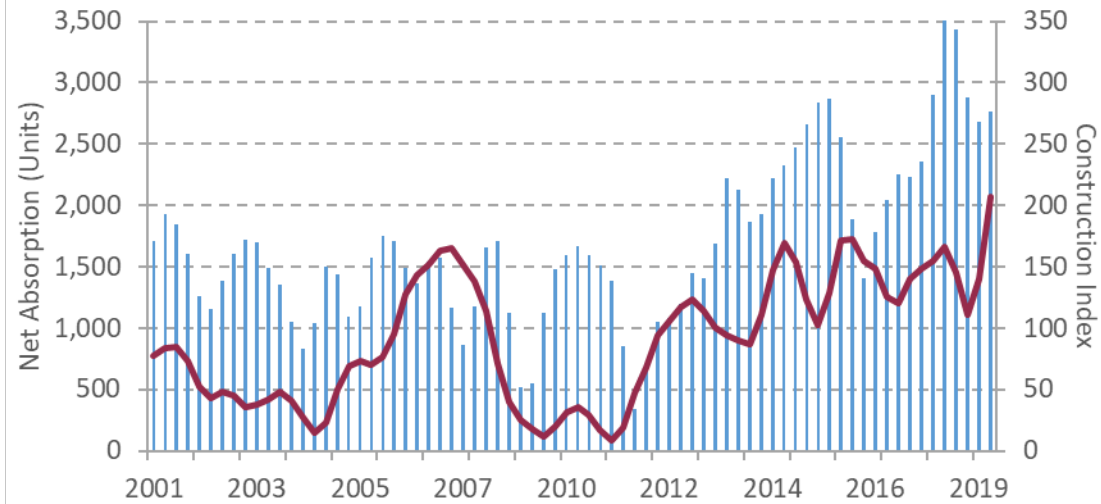
Figure 5. Austin Overall Vacancy and Effective Rent Growth



Note: Seasonally adjusted and trend-cycle component.

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

**Figure 6. Austin Overall Net Absorption and Construction Starts Index
(Index 2000 Q1 = 100)**



Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Real Estate Center at Texas A&M University

Figure 7. Austin Overall Vacancy and Units Under Construction

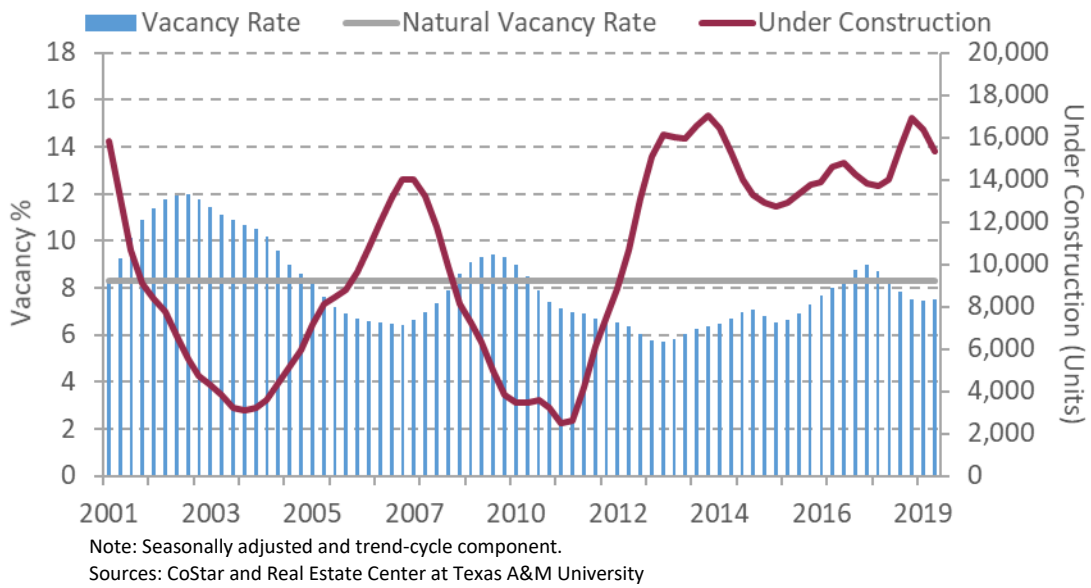
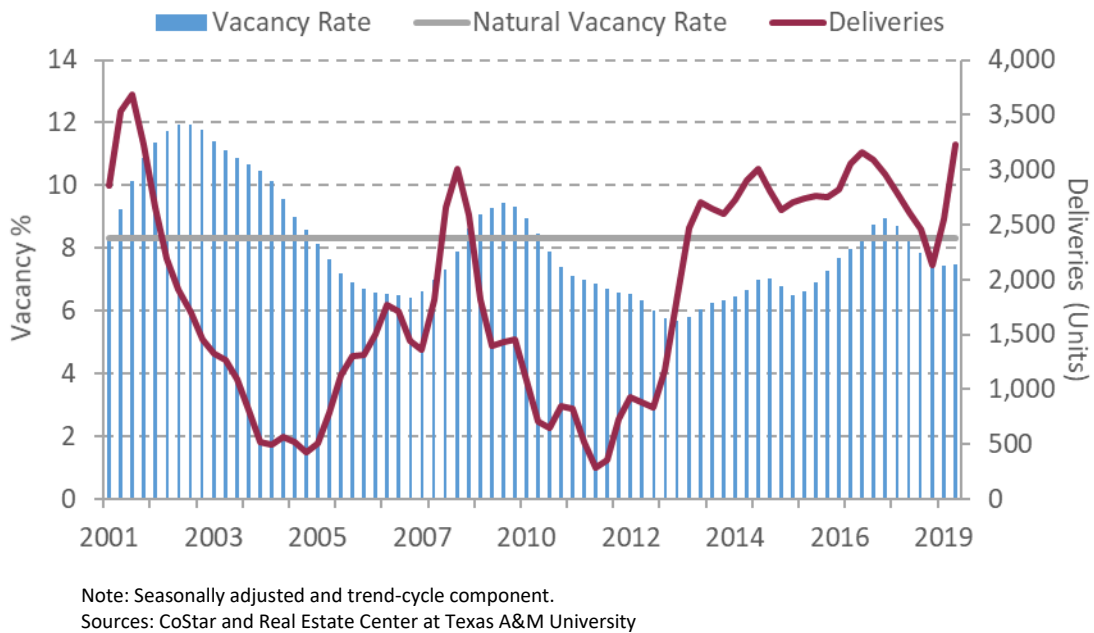


Figure 8. Austin Overall Vacancy and Deliveries in Units



Dallas-Fort Worth Overall

OCCUPANCY RATE
▲ 92.1%

EFFECTIVE RENT GROWTH (PER UNIT)
▲ 3.1%

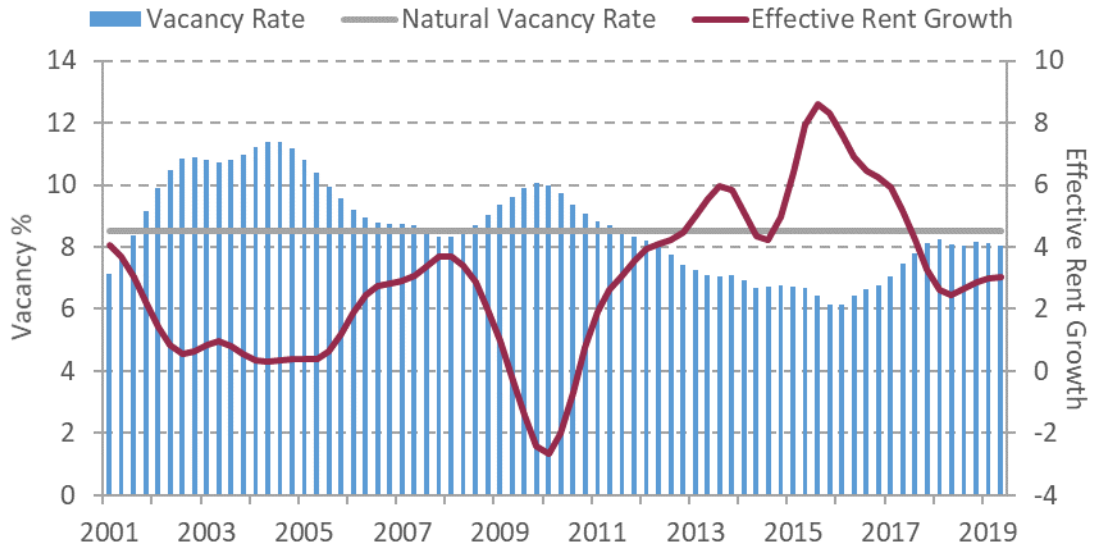
NET ABSORPTION (UNITS)
▲ 7,664

CONSTRUCTION STARTS
▼

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

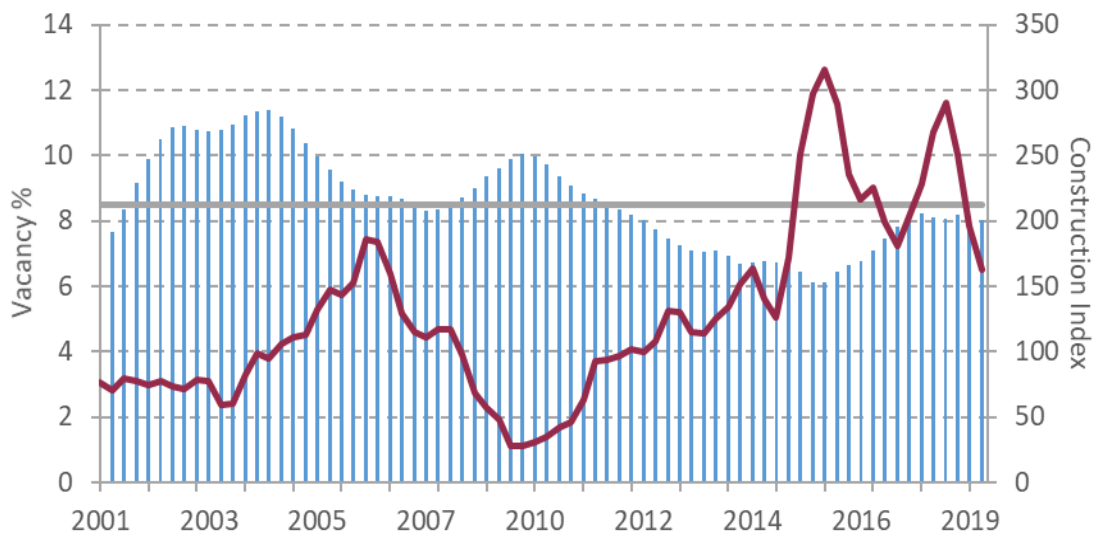
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Figure 9. DFW Overall Vacancy and Effective Rent



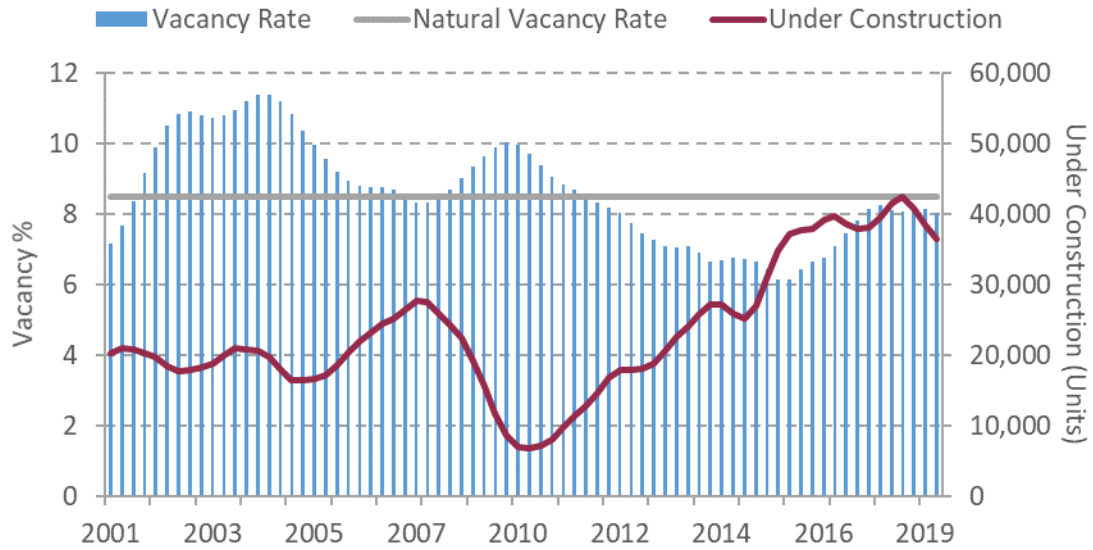
Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Real Estate Center at Texas A&M University

**Figure 10. DFW Overall Net Absorption and Construction Starts Index
(Index 2000 Q1 = 100)**



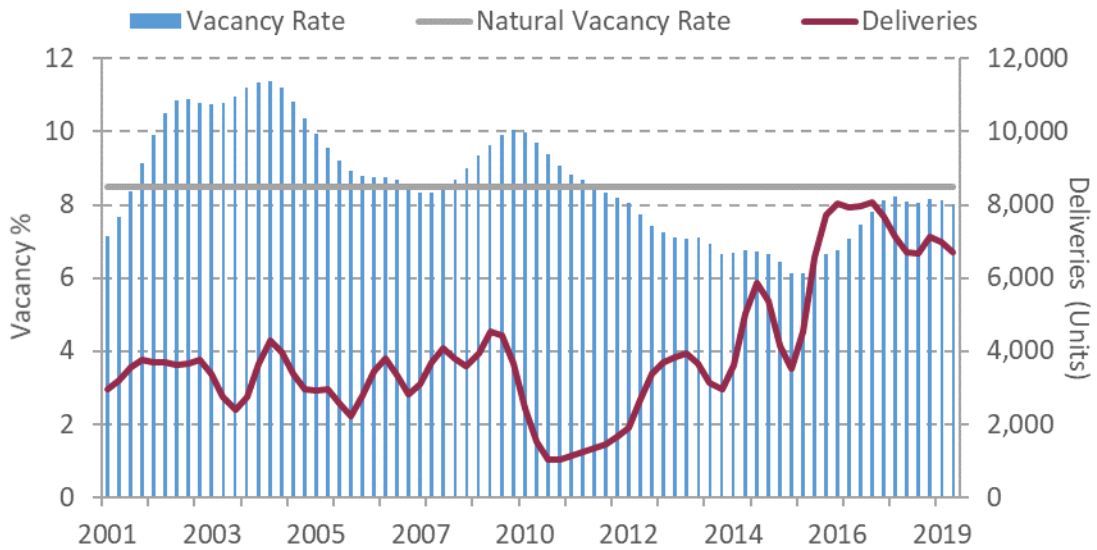
Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Real Estate Center at Texas A&M University

Figure 11. DFW Overall Vacancy and Units Under Construction



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

Figure 12. DFW Overall Vacancy and Deliveries in Units



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

Houston Overall

OCCUPANCY RATE
 91.0%

EFFECTIVE RENT GROWTH (PER UNIT)
 14%

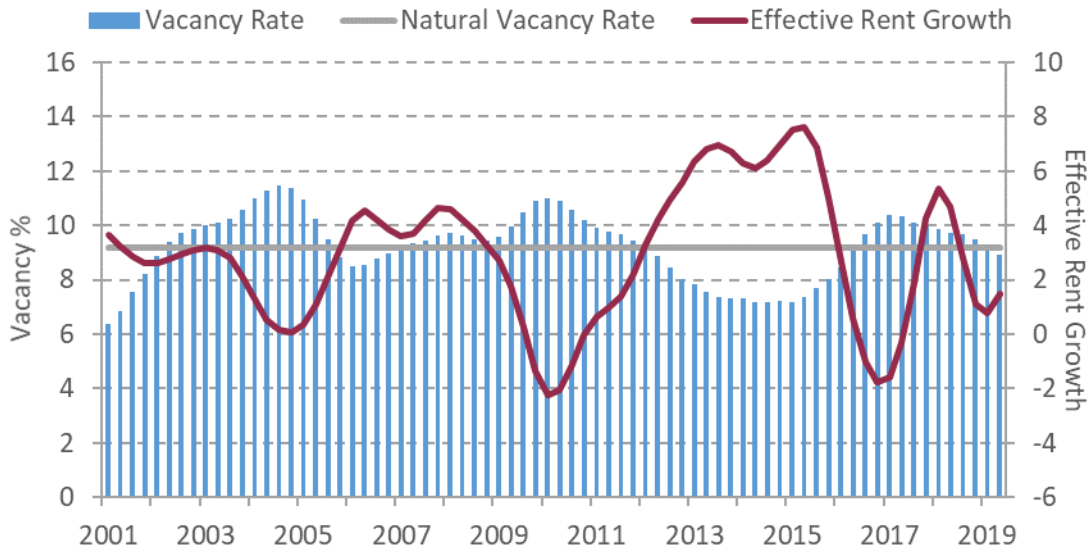
NET ABSORPTION (UNITS)
 2,181

CONSTRUCTION STARTS


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

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Figure 13. Houston Overall Vacancy and Effective Rent Growth

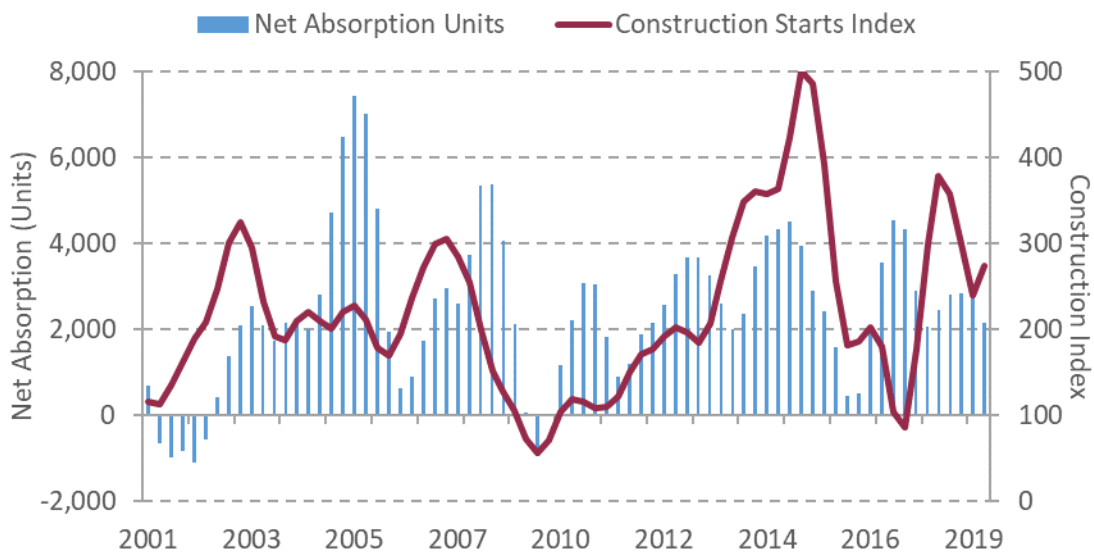


Note: Seasonally adjusted and trend-cycle component.

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

Figure 14. Houston Overall Net Absorption and Construction Starts Index

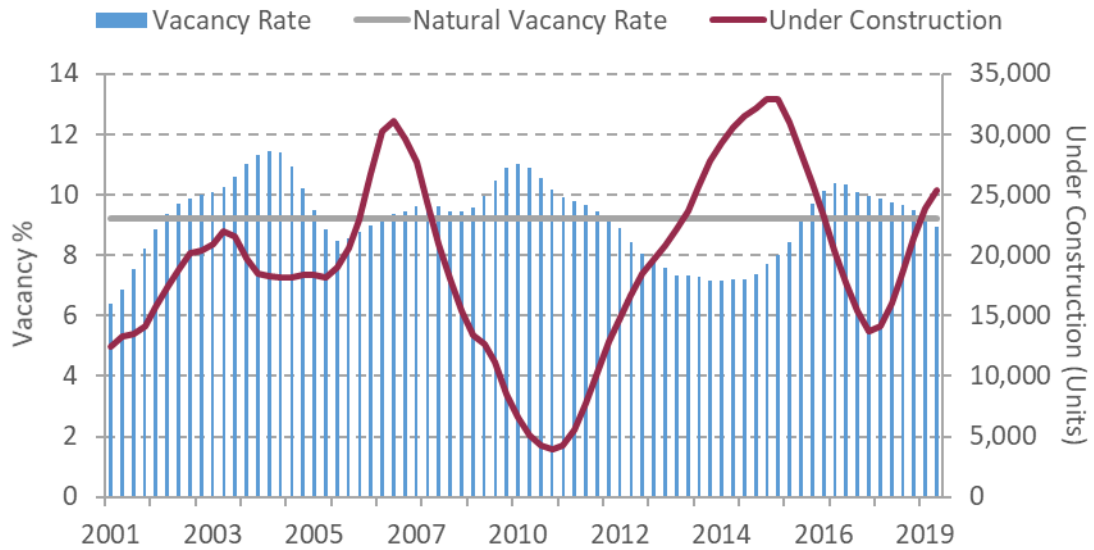
(Index 2000 Q1 = 100)



Note: Seasonally adjusted and trend-cycle component.

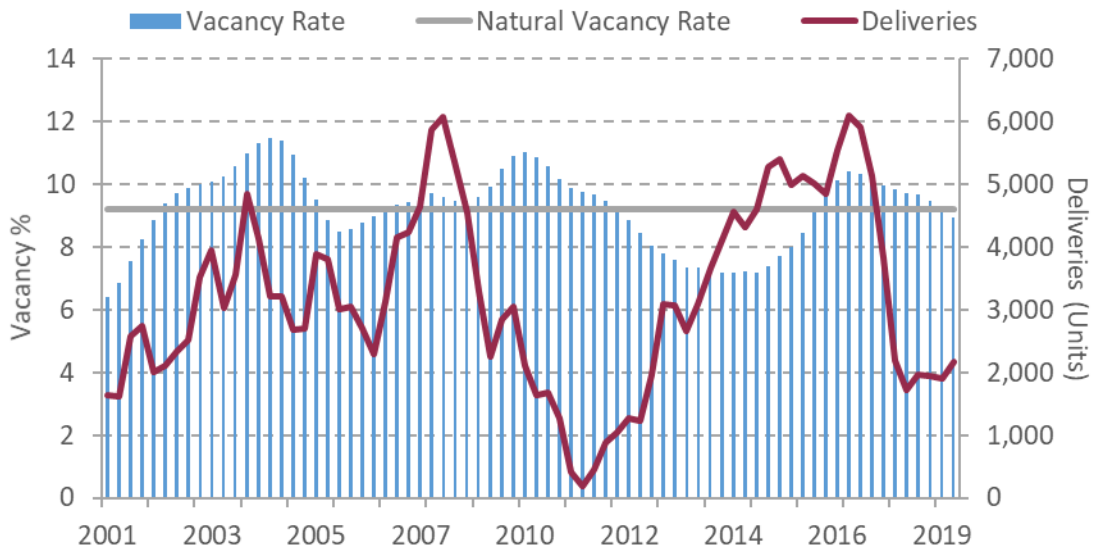
Sources: CoStar, Dodge Analytics, and Real Estate Center at Texas A&M University

Figure 15. Houston Overall Vacancy and Units Under Construction



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

Figure 16. Houston Overall Vacancy and Deliveries in Units



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

San Antonio Overall

OCCUPANCY RATE
▲ 91.5%

EFFECTIVE RENT GROWTH (PER UNIT)
▼ 3.7%

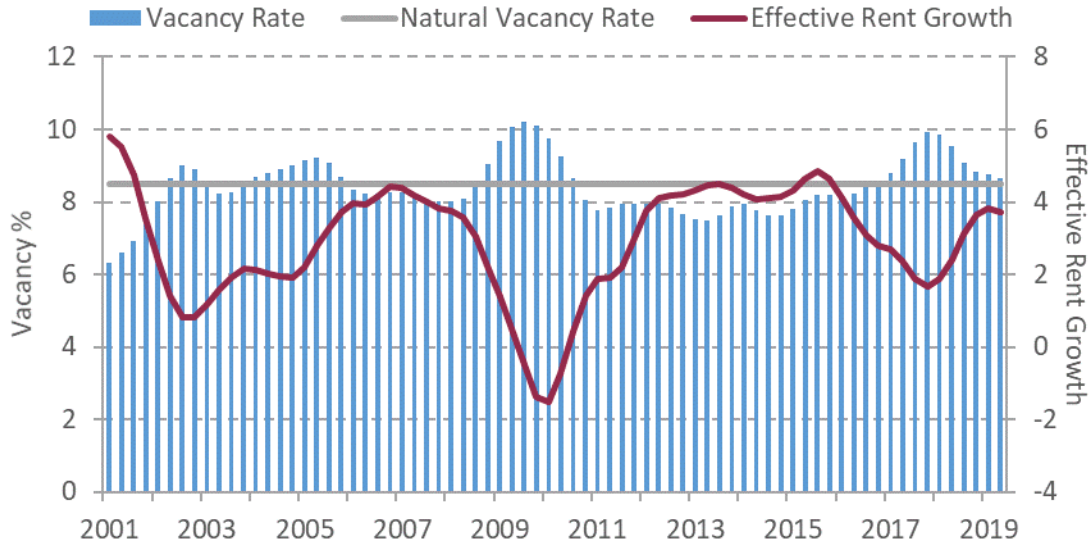
NET ABSORPTION (UNITS)
▼ 1,551

CONSTRUCTION STARTS
▲

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

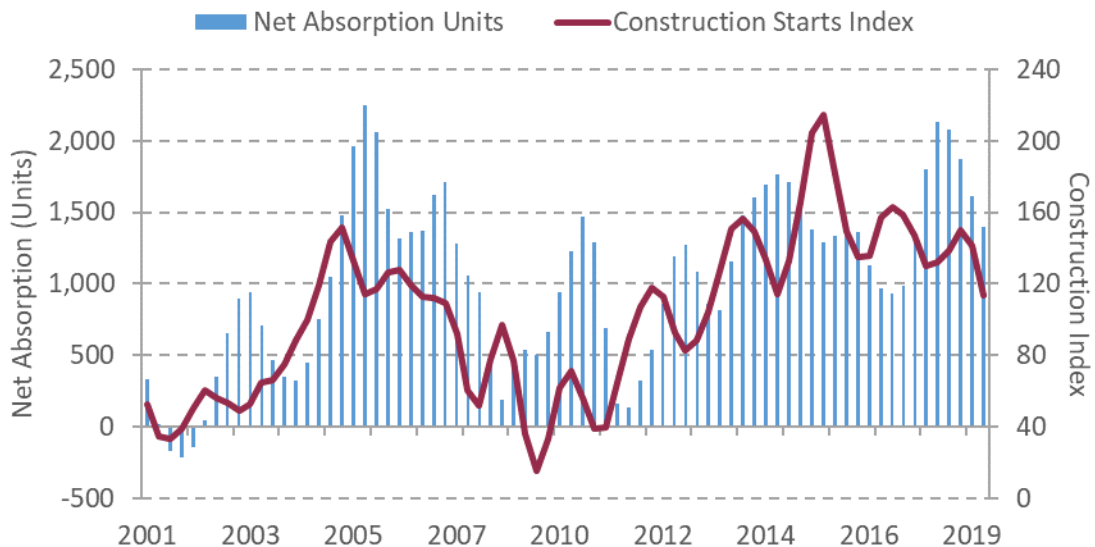
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Figure 17. San Antonio Overall Vacancy and Effective Rent Growth



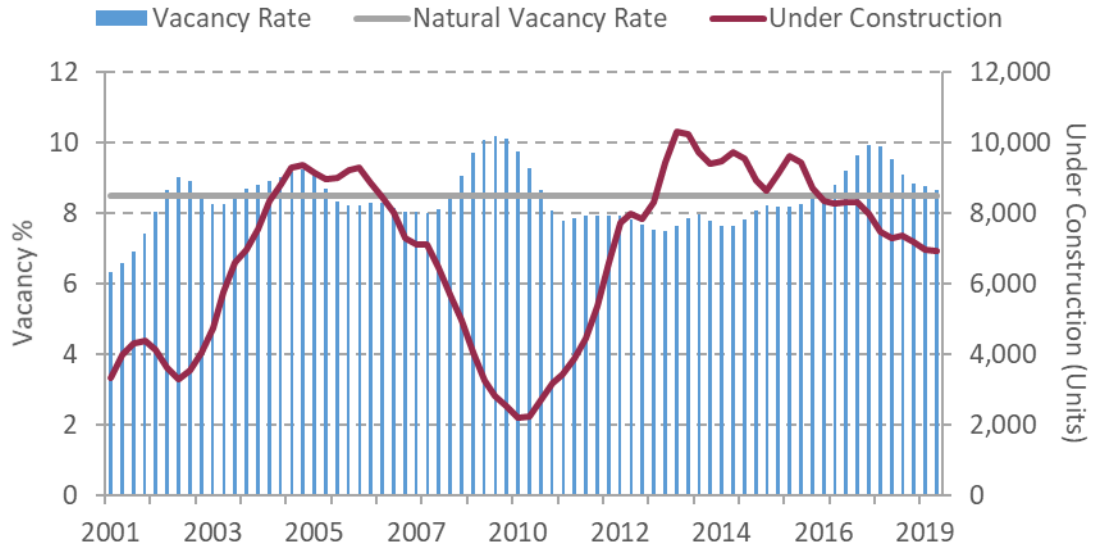
Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Real Estate Center at Texas A&M University

Figure 18. San Antonio Overall Net Absorption and Construction Starts Index (Index 2000 Q1 = 100)



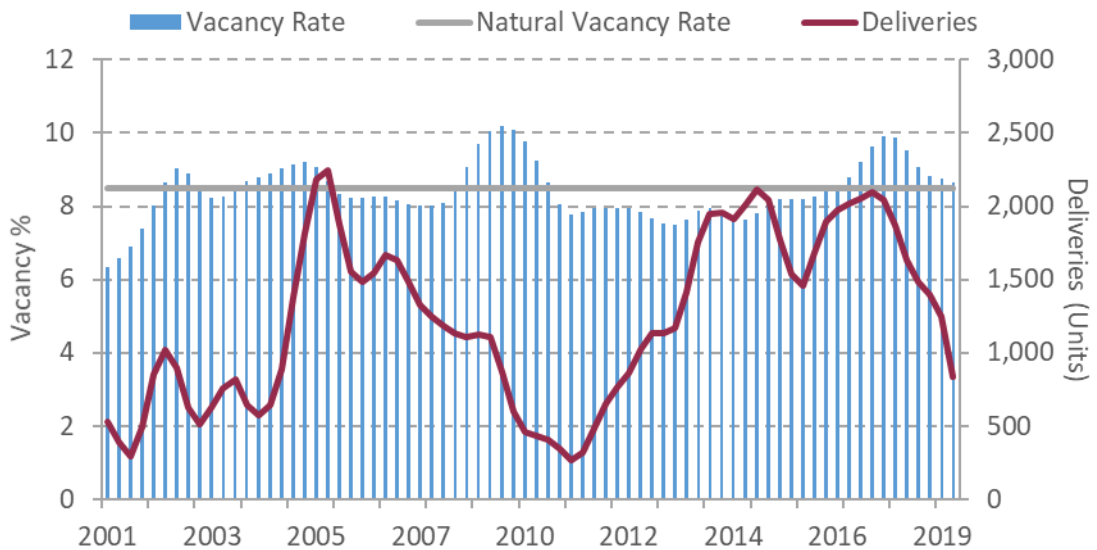
Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Real Estate Center at Texas A&M University

Figure 19. San Antonio Overall Vacancy and Units Under Construction



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

Figure 20. San Antonio Overall Vacancy and Deliveries in Units



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

Austin Class A

OCCUPANCY RATE
▼ 90.7%

EFFECTIVE RENT GROWTH (PER UNIT)
▼ 4.3%

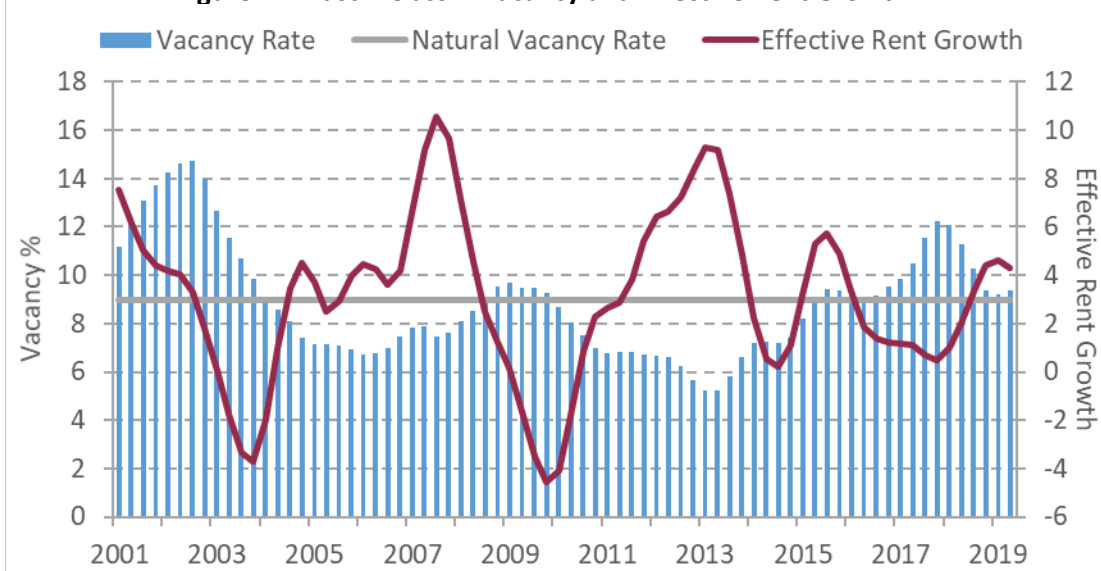
NET ABSORPTION (UNITS)
▲ 1,983

CONSTRUCTION STARTS
▲

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

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

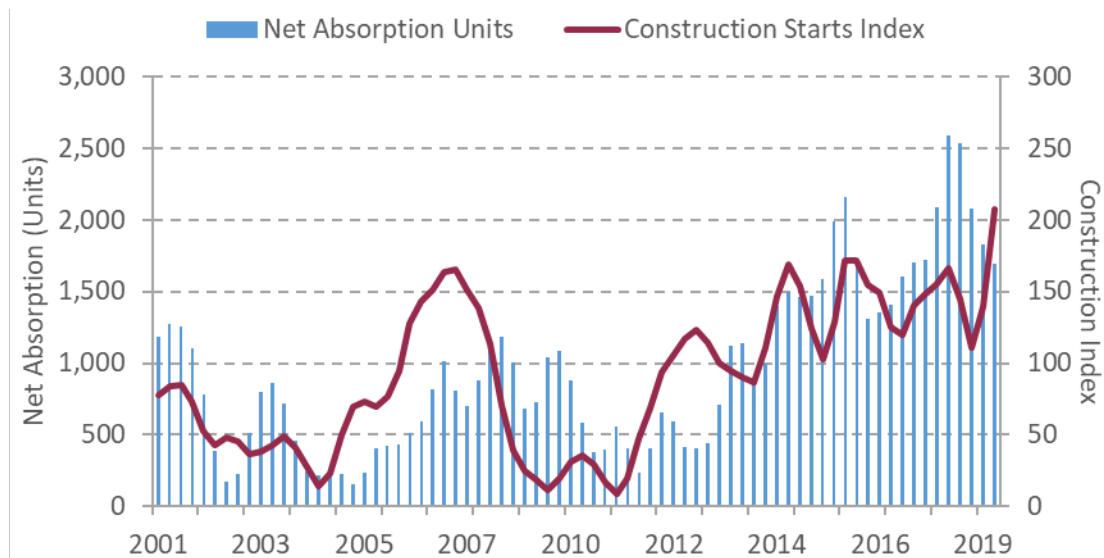
Figure 21. Austin Class A Vacancy and Effective Rent Growth



Note: Seasonally adjusted and trend-cycle component.

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

**Figure 22. Austin Class A Net Absorption and Construction Starts Index
(Index 2000 Q1 = 100)**

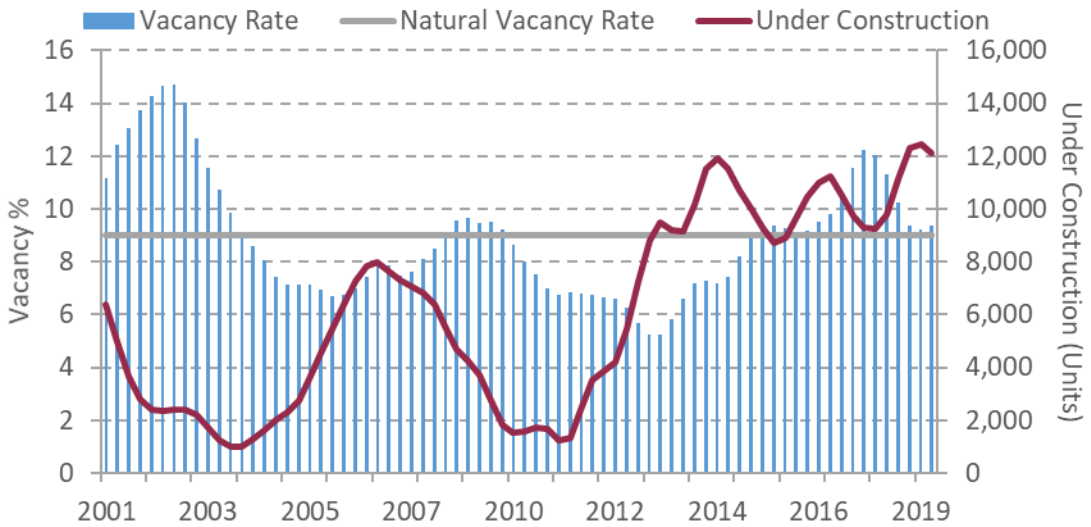


Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Real Estate Center at Texas A&M University

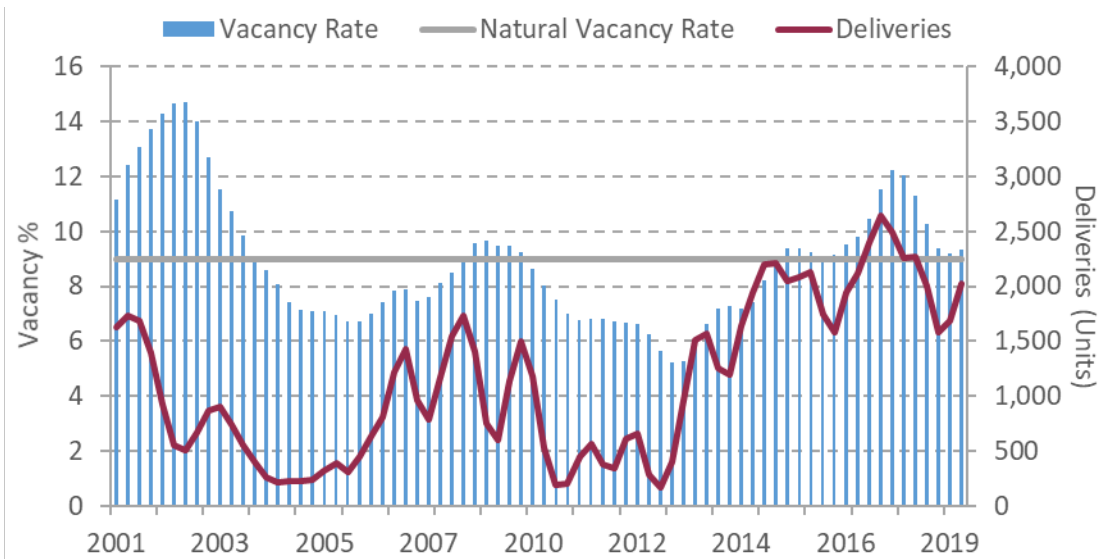


Figure 23. Austin Class A Vacancy and Units Under Construction



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

Figure 24. Austin Class A Vacancy and Deliveries in Units



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

Dallas-Fort Worth Class A

OCCUPANCY RATE
▲ 87.7%

EFFECTIVE RENT GROWTH (PER UNIT)
▲ 2.3%

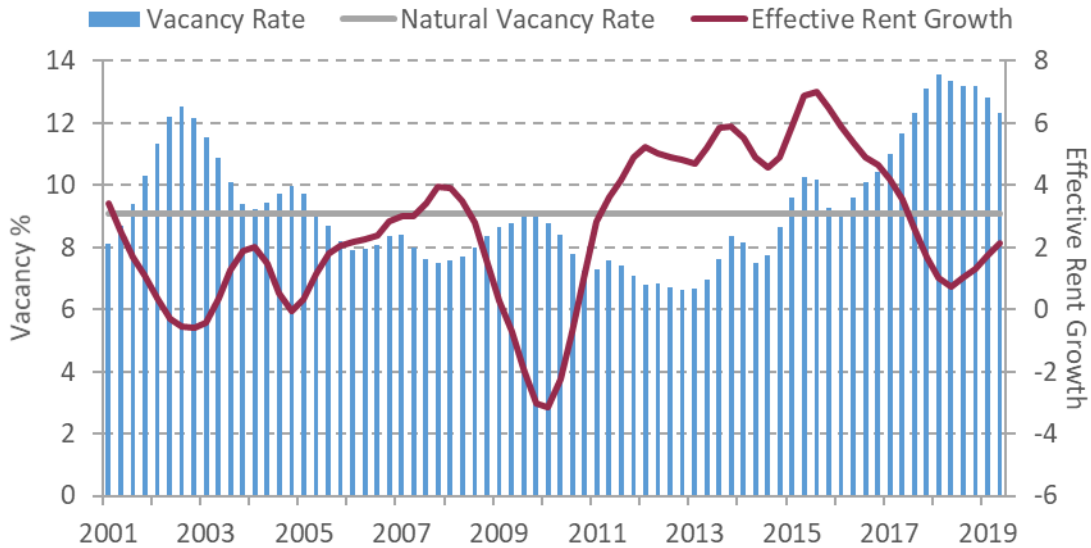
NET ABSORPTION (UNITS)
▼ 5,472

CONSTRUCTION STARTS
▼

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

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

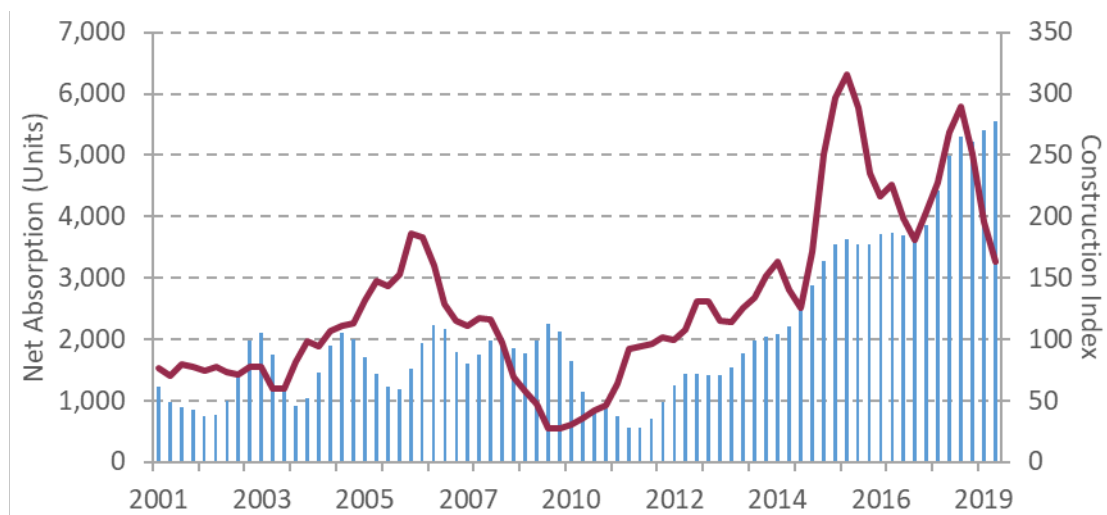
Figure 25. DFW Class A Vacancy and Effective Rent Growth



Note: Seasonally adjusted and trend-cycle component.

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

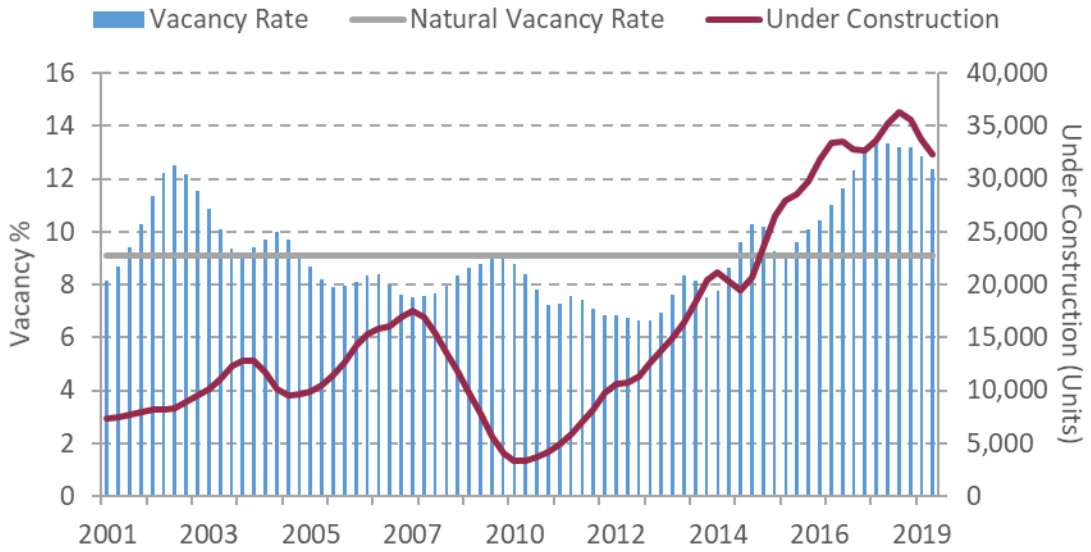
**Figure 26. DFW Class A Net Absorption and Construction Starts Index
(Index 2000 Q1 = 100)**



Note: Seasonally adjusted and trend-cycle component.

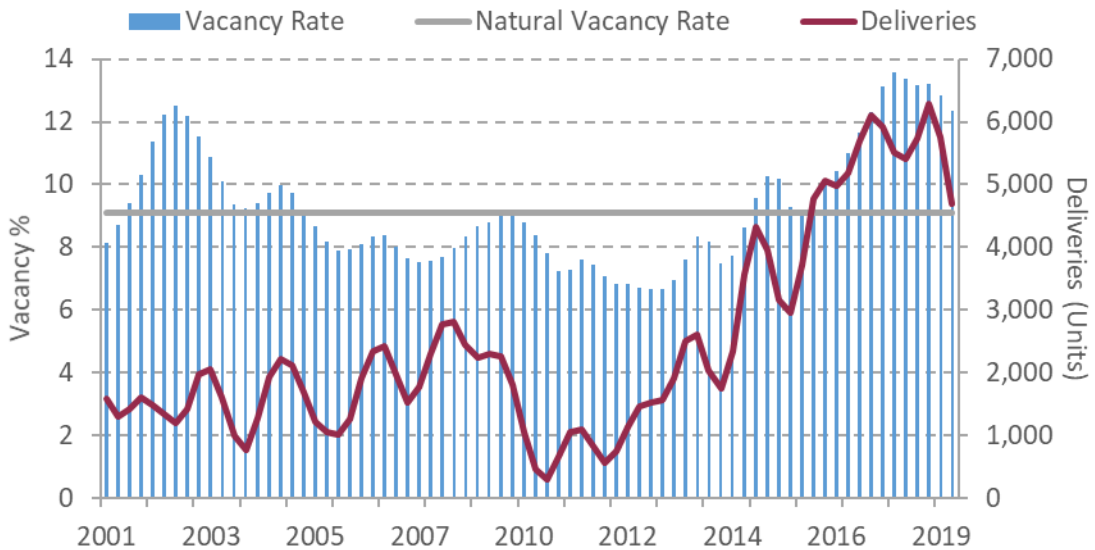
Sources: CoStar, Dodge Analytics, and Real Estate Center at Texas A&M University

Figure 27. DFW Class A Vacancy and Units Under Construction



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

Figure 28. DFW Class A Vacancy and Deliveries in Units



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

Houston Class A

OCCUPANCY RATE
▲ 91.0%

EFFECTIVE RENT GROWTH (PER UNIT)
▲ 0.6%

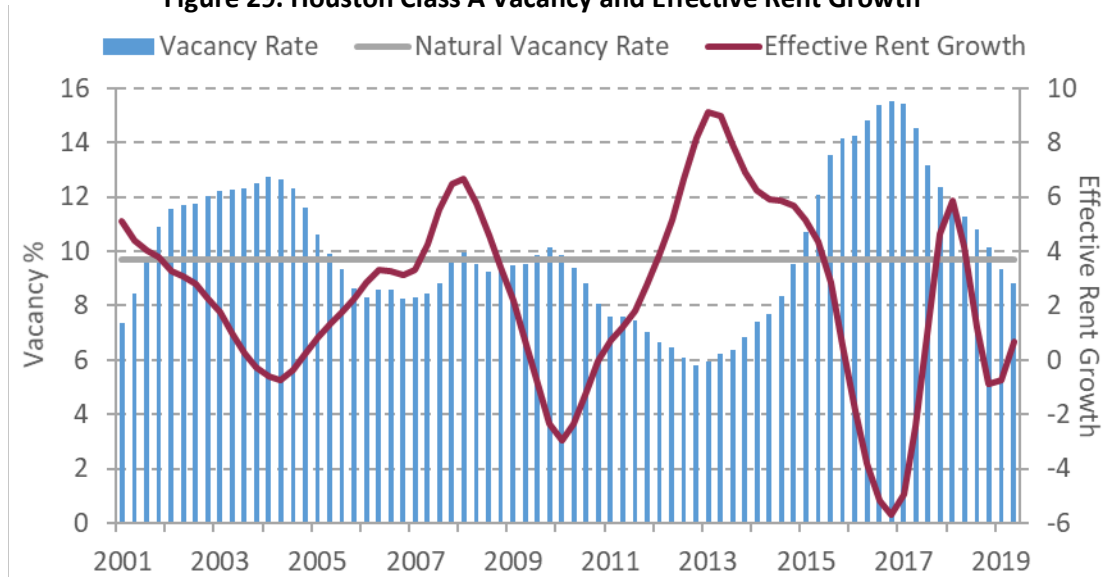
NET ABSORPTION (UNITS)
▼ 1,469

CONSTRUCTION STARTS
▼

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

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

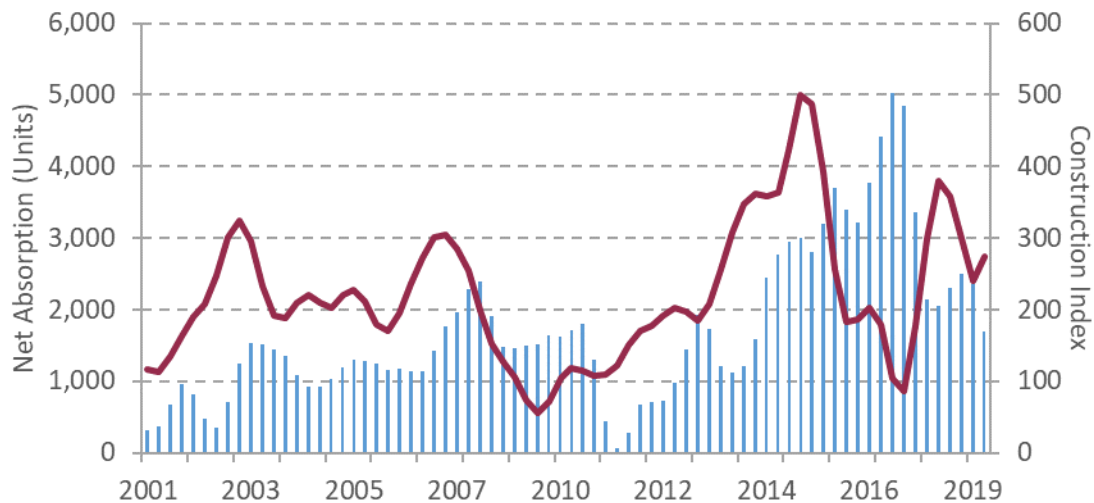
Figure 29. Houston Class A Vacancy and Effective Rent Growth



Note: Seasonally adjusted and trend-cycle component.

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

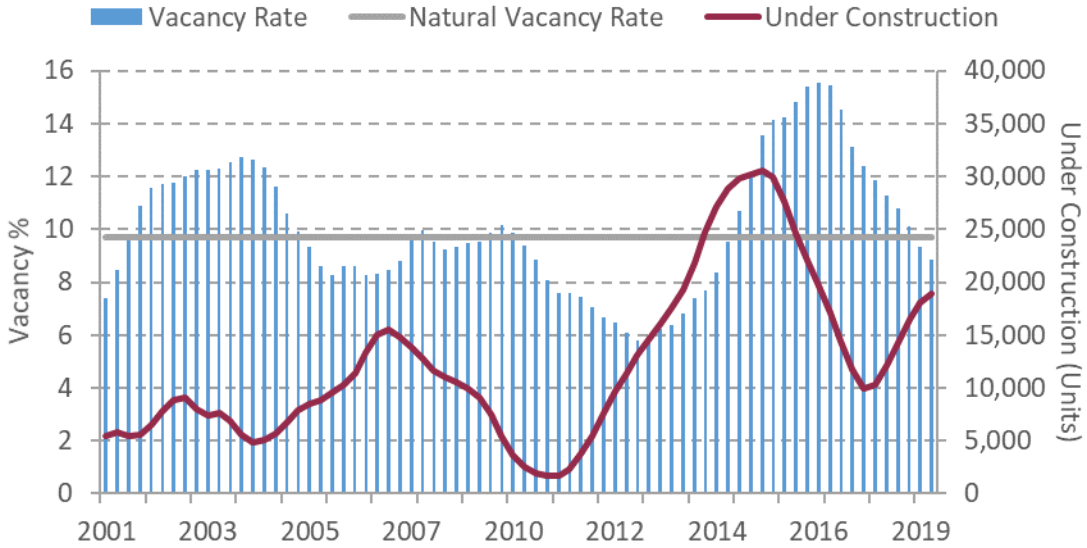
**Figure 30. Houston Class A Net Absorption and Construction Starts Index
(Index 2000 Q1 = 100)**



Note: Seasonally adjusted and trend-cycle component.

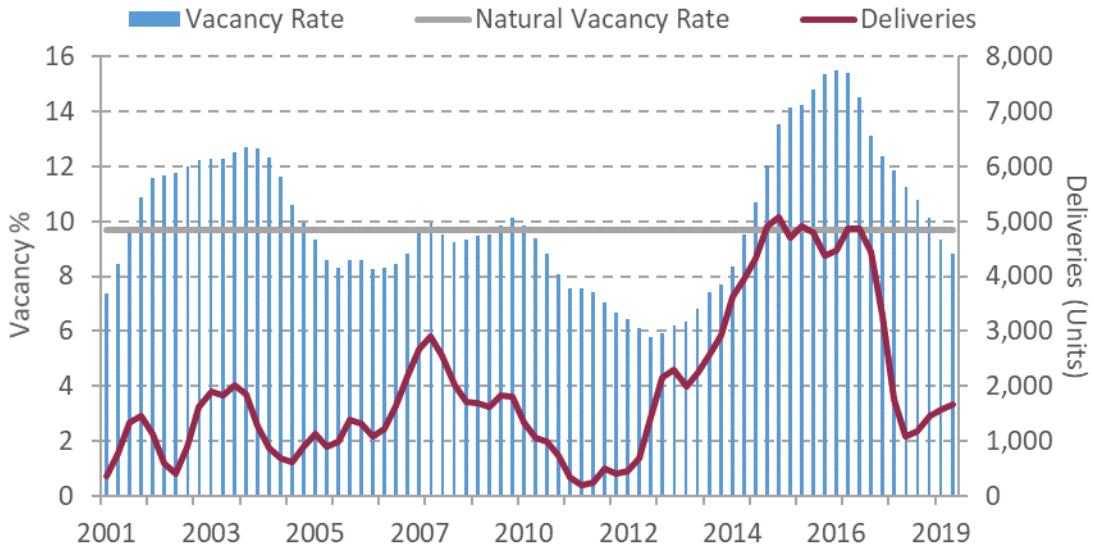
Sources: CoStar, Dodge Analytics, and Real Estate Center at Texas A&M University

Figure 31. Houston Class A Vacancy and Units Under Construction



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

Figure 32. Houston Class A Vacancy and Deliveries in Units



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

San Antonio Class A

OCCUPANCY RATE
▲ 91.5%

EFFECTIVE RENT GROWTH (PER UNIT)
▼ 3.7%

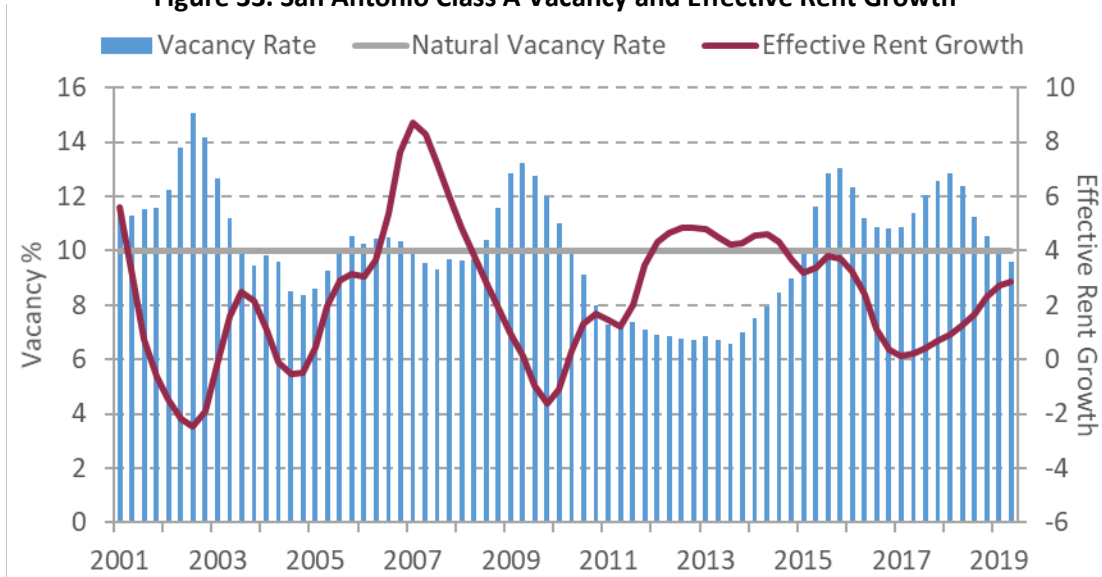
NET ABSORPTION (UNITS)
▼ 1,551

CONSTRUCTION STARTS
▲

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

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

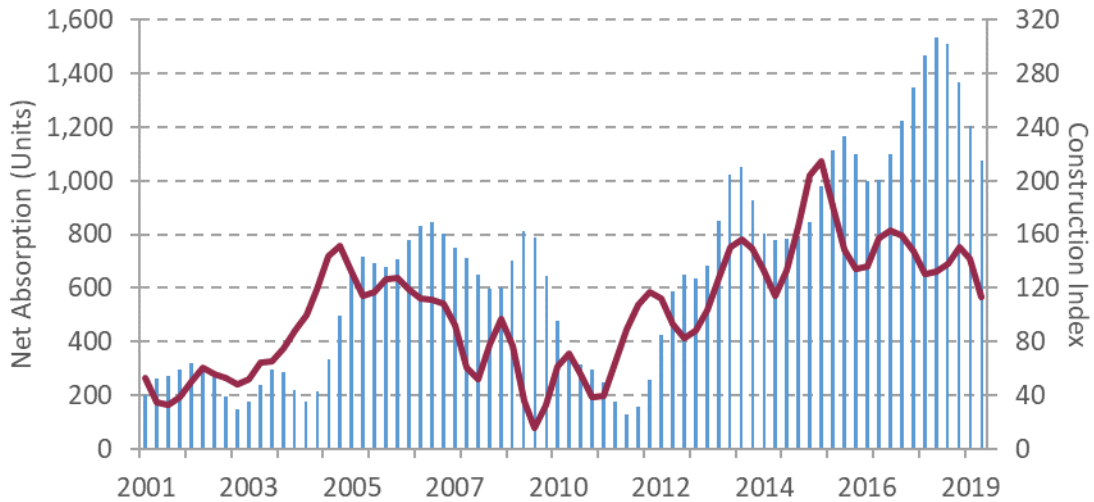
Figure 33. San Antonio Class A Vacancy and Effective Rent Growth



Note: Seasonally adjusted and trend-cycle component.

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

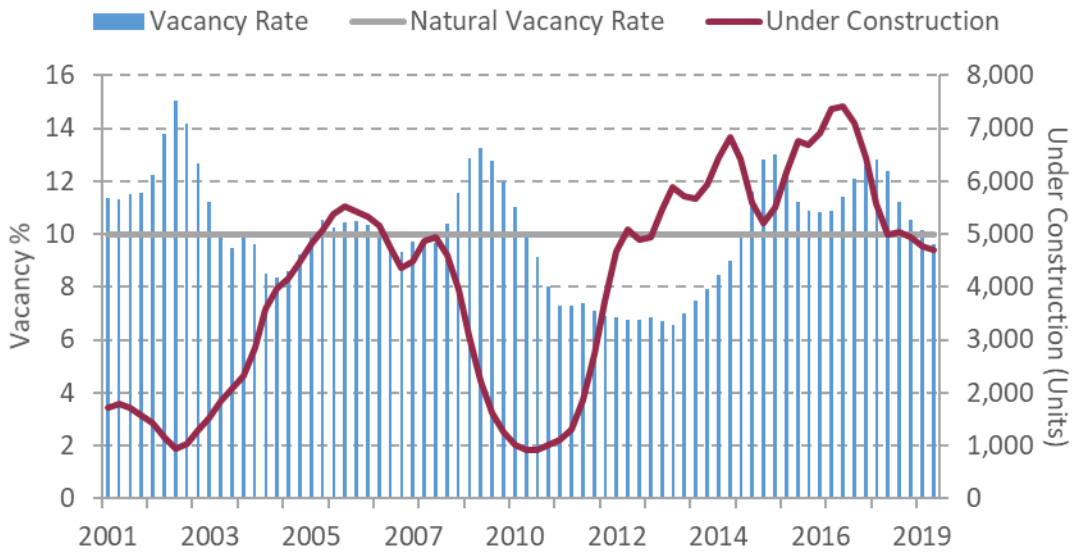
Figure 34. San Antonio Class A Net Absorption and Construction Starts Index (Index 2000 Q1 = 100)



Note: Seasonally adjusted and trend-cycle component.

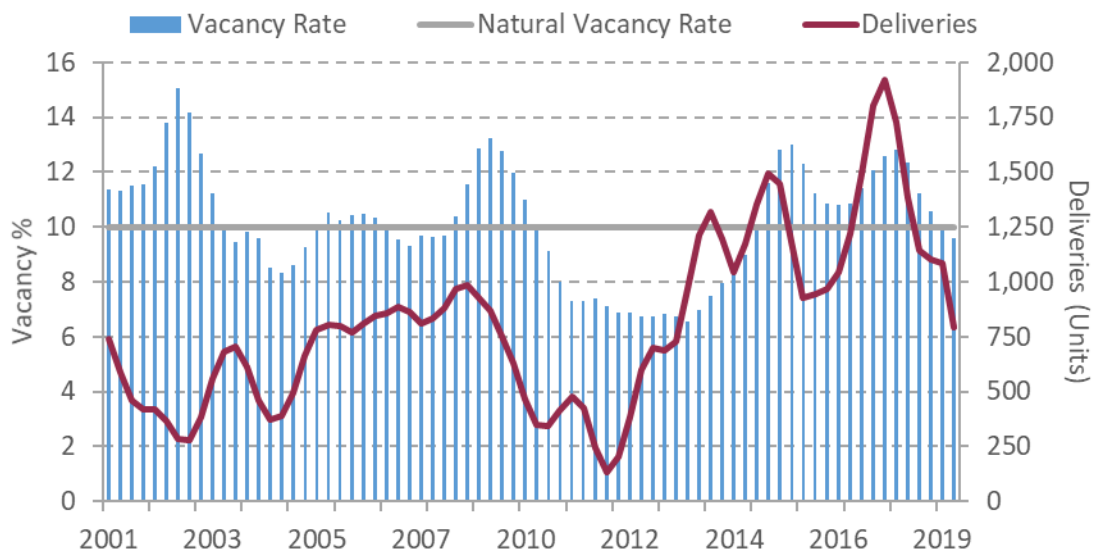
Sources: CoStar, Dodge Analytics, and Real Estate Center at Texas A&M University

Figure 35. San Antonio Class A Vacancy and Units Under Construction



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

Figure 36. San Antonio Class A Vacancy and Deliveries in Units



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

Definitions

Effective rents

Leases typically dictate this amount to be paid monthly.

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 that some real estate professionals may question whether calling the total dollars to be spent on a project’s “construction value” actually equates to its “market value” at completion. However, for consistency, this report will use Dodge’s terminology.

Under construction

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

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.

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.

Vacancy rate

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

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 could consider building new space.

A comparison of natural vacancy and actual vacancy along with historical vacancy trends allows researchers to anticipate the future 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.



TEXAS A&M UNIVERSITY
Real Estate Center

MAYS BUSINESS SCHOOL

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

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

DIRECTOR

GARY W. MALER

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