

# Texas Quarterly Apartment Report



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Texas Real Estate  
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TECHNICAL REPORT  
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SECOND QUARTER 2021

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# Texas Quarterly Apartment Report: 2<sup>nd</sup> Quarter 2021

## DALLAS FORT WORTH

	OCCUPANCY RATES	ASKING RENTS
OVERALL	92.6% ▲	9.1% ▲
CLASS A	90.4% ▲	11.6% ▲

## AUSTIN

	OCCUPANCY RATES	ASKING RENTS
OVERALL	91.6% ▲	13.5% ▲
CLASS A	92.1% ▲	16.8% ▲

## SAN ANTONIO

	OCCUPANCY RATES	ASKING RENTS
OVERALL	92.2% ▲	7.8% ▲
CLASS A	93.2% ▲	12.0% ▲

## HOUSTON

	OCCUPANCY RATES	ASKING RENTS
OVERALL	91.4% ▲	6.0% ▲
CLASS A	90.4% ▲	7.8% ▲



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

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## 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 (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. This report utilizes 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](mailto:info@recenter.tamu.edu).

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# Texas Economic Overview

Economic activity in Texas improved during second quarter 2021 and is expected to continue its strong growth for the remainder of the year. Improved hiring in June resulted in solid second-quarter payroll growth, although joblessness in the Lone Star State was still higher than the national average. Moreover, inflation-adjusted headline wage numbers flattened due to supply bottlenecks, generating price pressures and driving up inflation. On the bright side, oil industry activity grew as oil prices increased and the global economic recovery continues. 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.

The economic recovery continues due to increasing COVID-19 vaccination rates that have allowed the reopening of the economy. Based on the most current data from the Texas Department of State Health Services, 54.5 percent of the state's population is fully vaccinated<sup>1</sup>. Unfortunately, after months of decline in COVID-19 cases, the number of new cases has increased because of the number of people not yet vaccinated and the emergence of the Delta variant, which has shown to be more contagious. This has increased uncertainty surrounding the end of the pandemic. Until the virus is beaten, a full recovery cannot be secured. For additional commentary and statistics, see the Texas Real Estate Research Center's *Outlook for the Texas Economy*.

The Residential Construction Cycle (Coincident) Index, which measures current construction levels, elevated nationally and within Texas due to improved industry wages, employment, and construction values during June. Construction activity is expected to remain strong in coming months as indicated by the Texas Residential Construction Leading Index, which rose to a record high in June amid elevated weighted building permits and housing starts. Additionally, the decrease in the ten-year real Treasury bill yield nudged the index further upward (Figure 1). Although the metric indicated strong future activity, the trend flattened as growth rates in building permits and housing starts decelerated. Austin's leading index reflected statewide fluctuations in weighted building permits and residential starts while similarly reaching an all-time high. Houston and San Antonio indexes increased even as weighted permits decreased in both metros. The leading index in North Texas flattened as weighted building permits and residential starts decreased. Despite the differences between major metros, the metrics suggested steady construction in the coming months (Figure 2).

Overall market trends improved during June as the majority of Metropolitan Statistical Areas (MSAs) registered positive year-over-year changes in both occupancy and rents with the exception of Midland, Odessa, and San Angelo MSA. Midland and Odessa had negative annual rent growth. This caused the Texas average to register positive changes in both occupancy and rent (Figure 3).

Texas nonfarm employment added 55,800 jobs in June, rising 4.4 percent on a seasonally adjusted annual rate (SAAR). Based on the state's solid employment performance, the Federal Reserve Bank of Dallas forecasts annual employment will increase 5.6 percent in 2021, reaching 13 million workers in December. Hiring in Houston slowed during the second quarter, recovering 19,600 jobs compared with the first quarter's gain of 33,700. Houston payrolls are still 5.4 percent off from pre-pandemic levels, a larger gap than the other major metros. Dallas added 33,400 employees in the second quarter, registering the highest number of job gains of the four major MSAs. San Antonio and Austin registered net quarterly increases of 9,800 and 9,400 workers, respectively. Payroll expansions were largely concentrated in the leisure/hospitality, professional/business services, wholesale trade, government, and education/health services industries across the major metros. Employment declined only in Fort Worth, which shed 1,000 positions during the second quarter as global supply chains negatively affected the manufacturing industry. Goods-producing employment in Fort Worth decreased due to falling construction jobs.

Texas' goods-producing sector gained 2,600 positions in June. Even after registering two straight months of increases, the sector still lost 15,600 jobs during 2Q2021. Amid increasing oil prices, energy-related employment rose by 2,300 jobs in the second quarter but remained around a fifth below year-ago levels. Recovering global economic conditions supported the state's manufacturing industry, which added 4,900 employees. Durable-goods payrolls recorded a 4,100-job gain during the second quarter. Construction payrolls fell last quarter, shedding 22,900 jobs.

Texas' service-providing sector, which was hit hardest by the pandemic, continues to recover jobs. It is 2 percent below pre-pandemic levels after adding 128,500 jobs in the second quarter. Leisure/hospitality recouped 58,000 jobs in 2Q2021, but arts/entertainment/ recreation payrolls remained almost a fifth below pre-pandemic levels. On the other hand, the transportation/warehousing/utilities industry added 11,300 positions, surpassing pre-pandemic employment by 1.2 percent.

Rising oil prices, accelerating vaccination rates, and optimistic national economic data during the second quarter resulted in higher growth and inflation expectations for 2021. However, the liquidity in the financial markets as a consequence of large-scale asset purchases by the Fed that include mortgage-backed securities and U.S. Treasuries, which have pushed down interest rates. The ten-year U.S. Treasury bond yield decreased to 1.52 percent in June after reaching a pandemic high of 1.64 in April. The spread between apartment capitalization rates and the ten-year Treasury yield decreased for three straight quarters from 4Q2020 to 2Q2021. The decreasing spread indicated less risk and profitability in apartment real estate (Figure 4). This trend was helped as the outlook changed from devastating to cautious regarding the eviction moratorium's possible effects on the apartment market. In addition, increasing vaccination rates have reduced uncertainty surrounding the end of pandemic, allowing for the full



reopening of the economy and a strong job recovery. This reduces the risk on multifamily cap rates. Both factors allowed cap rate spread with the ten-year Treasury to decrease even after decreasing in value during the second quarter.

Overall apartment cap rates for Houston and San Antonio remain the highest, followed by DFW and Austin. The spread with the ten-year Treasury bill continued to decrease in 2Q2021. 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).

Texas' unemployment rate decreased to 6.5 percent in June, still greater than the national rate of 5.9 percent. The state's labor force expanded, but that didn't increase the labor force participation rate, which remained at 62.2 percent below pre-pandemic levels. Joblessness in Houston also fell, albeit at a higher rate of 7.1 percent. The local labor force expanded from the previous month. On the other hand, unemployment inched down to 6.2 percent in Fort Worth and 6.0 and 5.9 percent in San Antonio and Dallas, respectively. The metric remained lowest in Austin, where the jobless rate slid to 4.9 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 would be expected, the increase in the unemployment rate back in 2Q2020 pushed up vacancy rates in the major metros. Declining unemployment rates have alleviated some of that vacancy pressure (Figures 5-8). In addition, the eviction moratorium and the federal stimulus that included transfer payments through direct payments and renter/landlord assistance have pushed down vacancy rates. Also, increasing vaccination rates have allowed for the reopening of the economy, leading to strong job growth and to decreasing vacancy rates.

According to the U.S. Census Bureau's Household Pulse Survey, 15 percent of Texas renter-occupied households were behind on payments in June, similar to the national rate of 15 percent (Table 3). Renter households in Dallas-Fort Worth registered the same value, contrasting with Houston's value of 20 percent, recording a considerably higher value than what was observed at the national and state levels. This is a deterioration from the March pulse survey numbers.

Thirty percent of renter households in Texas stated that they have no confidence or only slight confidence in making their rent payment next month, higher than the 25 percent observed at the U.S. level (Table 4). DFW's metro increased to 24 while Houston's fell to 29 percent. The overall results deteriorated compared to the March pulse survey results, with the exception of Houston, which showed improvement.

Sixty-three percent of Texas respondents who were not current on rent said eviction was either very likely or somewhat likely in the next two months. Nationally, the number was 44 percent

(Table 5). That metric was higher in DFW and Houston, registering 71 and 63 percent, respectively. The Pulse Survey results worsened from March to June. Both the DFW and Houston multifamily rental market outlooks are worrisome due to the high numbers of households that could be evicted. Federal eviction moratoriums are in place until Oct. 3, 2021. Continued household stability is essential to Texas' economic recovery.

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## Enhanced Multifamily Outlook from Covid-19 Impact

- Various factors contributed to a major turnaround in the apartment market in 2021, allowing it to surpass pre-pandemic levels of occupancy and rent growth:
  - The fiscal stimulus served as a bridge for unemployed workers by not allowing their incomes to fall drastically while they seek re-employment. It also helped businesses from closing permanently.
  - Increasing vaccination rates have allowed the economy to reopen, especially benefiting service industries that cannot socially distance.
  - The lack of single-family homes for sale, especially those priced below \$300,000, has caused strong home price growth, which assisted the apartment market. Given the steep increase in home prices during the year some households probably found themselves priced out of the market and will continue to be renters.
- Economic growth, demographic trends (such as a young population and migration from out of state), and a limited supply of single-family homes available for sales combined with strong home price growth will help drive Texas apartment demand in the remainder of 2021. This should continue during 2022.
- Evictions will probably increase as the result of the Supreme Court's decision on Aug. 26 to lift the Centers for Disease Control and Prevention's latest eviction moratorium that was set to expire on Oct. 3.
  - Evictions have been kept low due to government policies but are no longer seen as a catastrophic issue facing the apartment market.
  - Labor market recovery and government transfers benefited households that in the past couldn't make their rent payments on time.
  - Some households will probably be forced to change their current living arrangements, but they would not represent the majority of the rental market.
    - The household pulse survey results for June show an increase in renter concerns over ability to pay rent, getting behind on rent payments, and on being evicted.
    - Eviction increases are expected to be concentrated in Class C and D properties and would probably affect small property owners, but they would not represent the majority of the rental market.
  - Some concerns remain, and landlords and renters should be cautious regarding the effects of evictions, but the outlook has changed considerably from catastrophic at the onset of the pandemic to a more positive outlook.
  - In addition, the upsurge in new cases due to the Delta variant has increased uncertainty surrounding the end of the pandemic. A full recovery cannot be secured until the virus is under control.



The Texas Real Estate Research Center estimated 2021 and 2022 apartment vacancy rates and effective rent percent changes for the major MSAs (Tables 1 and 2).

**Table 1. Forecasted Overall Apartment Vacancy Rates and Effective Rents**

MSA	Natural Apartment Vacancy Rate	Vacancy Rates (%)					Effective Rents (y-o-y %)				
		2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Austin	8.3	8.0	9.9	8.6	8.2	7.9	4.5	-0.9	10.5	5.8	2.1
Dallas-Fort Worth	8.5	8.2	8.6	7.8	7.6	7.8	3.2	1.3	7.1	2.1	2.0
Houston	9.2	9.3	10.2	8.6	8.3	8.4	1.9	-0.3	4.8	2.5	2.0
San Antonio	8.5	9.4	9.5	8.0	7.9	8.0	3.1	0.7	6.3	2.2	2.0

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

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

**Table 2. Forecasted Class A Apartment Vacancy Rates and Effective Rents**

MSA	Natural Apartment Vacancy Rate	Vacancy Rates (%)					Effective Rents (y-o-y %)				
		2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Austin	9.0	10.7	12.0	8.2	7.9	7.9	4.5	-1.2	11.5	3.4	2.3
Dallas-Fort Worth	9.1	12.3	12.7	10.0	9.9	9.7	2.4	-0.2	9.0	2.3	2.1
Houston	9.7	10.2	12.9	10.1	9.9	9.8	1.4	-2.9	6.2	2.2	2.0
San Antonio	10.0	11.0	10.8	7.3	7.2	7.2	2.8	-1.0	9.8	2.1	2.0

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

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

**Table 3. Last Month's Rent Payment Status**

Region	Occupied Without Rent	Household Currently Caught Up on Rent Payments		
		Yes	No	Did not report
United States	6%	79%	15%	0%
Texas	6%	79%	15%	1%
Dallas-Fort Worth	6%	79%	15%	1%
Houston-The Woodlands-Sugar Land	3%	75%	20%	1%

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, June 9–21

**Table 4. Confidence in Ability 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%	16%	18%	49%	1%	1%
Texas	12%	18%	16%	47%	1%	1%
Dallas-Fort Worth	11%	13%	11%	47%	1%	0%
Houston-The Woodlands-Sugar Land	16%	13%	28%	38%	1%	1%

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, June 9–21

**Table 5. Likelihood of Being Evicted in Next Two Months**

	Very Likely	Somewhat Likely	Not Very Likely	Not Likely at All	Did Not Report
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.

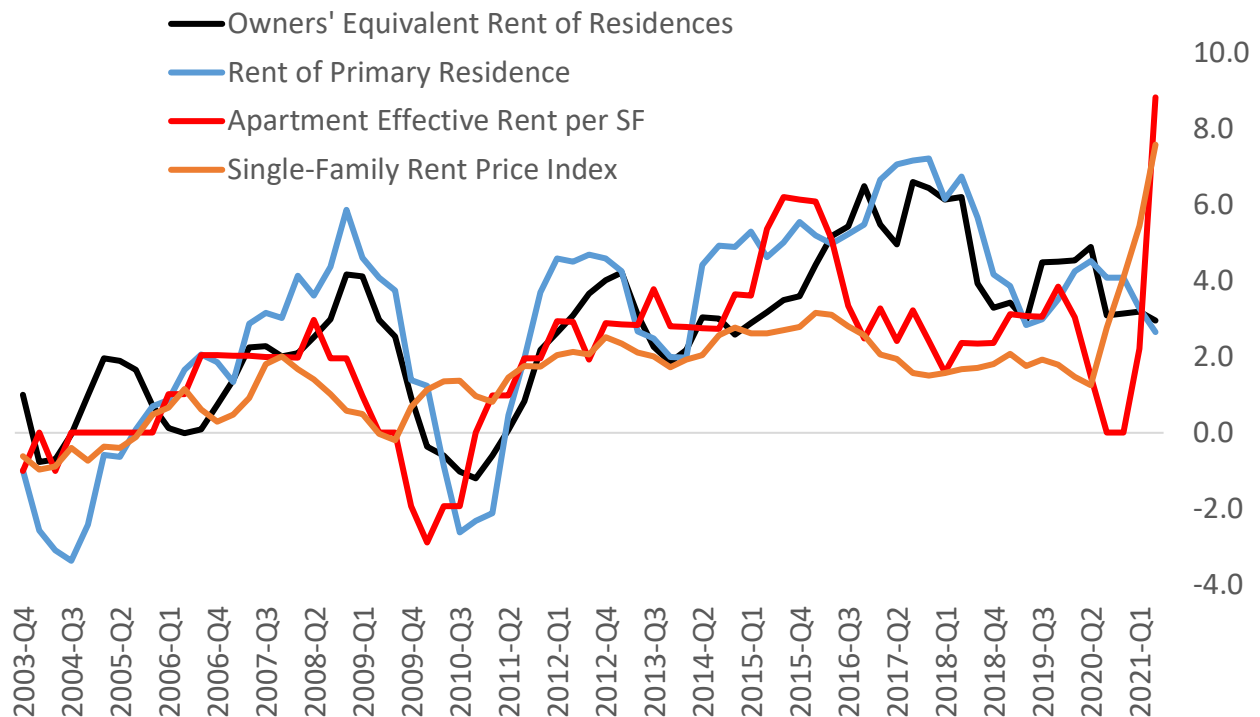
Source: U.S. Census Bureau Household Pulse Survey, June 9–21

## Overall Increase in Living Costs

Sharp price increases are not limited to the single-family home purchase market. They're also occurring in the apartment rental market and in the single-family home rental market. The residential market is experiencing strong housing price increases, which translate into more permanent price increases than temporary ones and have a dampening effect on household budgets.

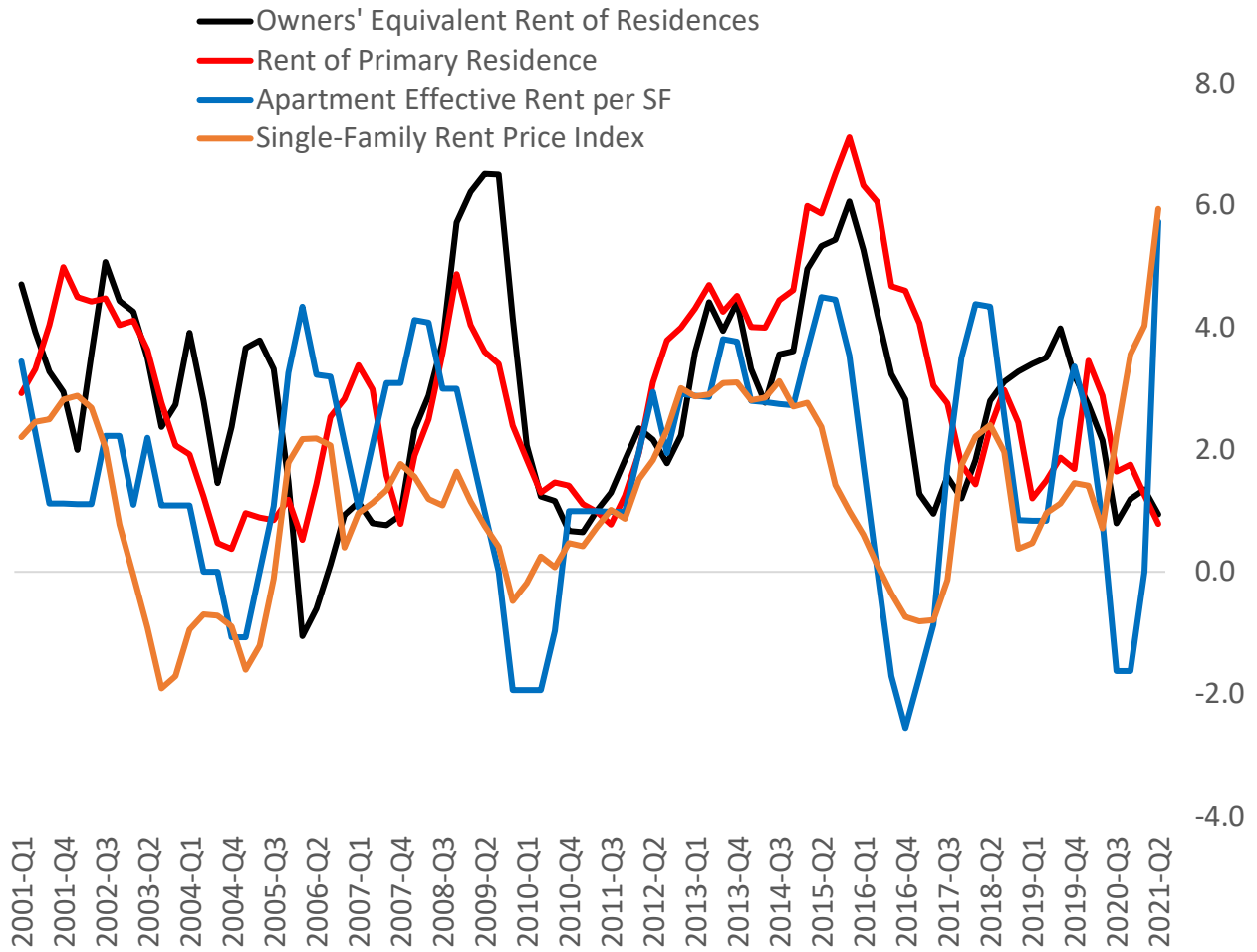
Apartment effective rent per square foot (AERSF) and the single-family rent price index registered strong annual growth during 2Q2021 in both DFW and Houston. In contrast, the owner equivalent rent (OER) and the rent of primary residency trended downward in both metros, underestimating the increase in the cost of living. The OER and the rent of primary residency lag both AERSF and the single-family rent price index. If the lag relationship still holds, the OER and rent of primary residency should start registering strong annual growth rates in the coming months. This would increase overall inflation since cost-of-living costs are part of core inflation.

**DFW: Owner's Equivalent Rent, Rent of Primary Residence, Apartment Effective Rent per SF and Single-Family Rent Price Index**  
(y-o-y %)



Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

**Houston: Owner's Equivalent Rent, Rent of Primary Residence,  
Apartment Effective Rent per SF and Single-Family Rent Price Index  
(y-o-y %)**



Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

# Overall Apartment Sector

## **Austin (Figures 9 – 12):**

The actual vacancy rate in Austin’s overall apartment market for 2Q2021 fell to 8.4 percent. This improvement was coupled with a substantial increase in average effective rent growth, up 13.5 percent from the same quarter in 2020. Though 2Q2020 was marked by a large downturn in effective rent growth in the midst of the onset of the coronavirus pandemic, the current high growth rate is a good indication that demand is recovering in the multifamily rental market. Actual average effective rents also experienced quite an upswing, up 8 percent over 1Q2021.

According to Real Page Inc., 97.5 percent of multifamily renters made full or partial rent payments in the Austin-Round Rock MSA, up from 96.4 percent in 1Q2021. This continues a pattern observed throughout the pandemic in which Austin-Round Rock consistently ranks the highest in rent paid among the four major Texas MSAs and remains above both the state and national averages. This pattern continues to affirm the relative strength of the rental market in Austin and bodes well for future recovery.

Net absorption held constant in this market even as units delivered fell to their lowest point since 2Q2017, another indication of high demand. Units under construction also grew slightly. Construction value starts fell to their lowest level since 1Q2019, indicating potential hesitance on the part of investors to oversupply the market.

Austin again ranked second nationally in quarterly rankings of 5+ unit multifamily housing building permits submitted, but the city had a 5.3 percent decrease from 1Q2020. Austin-Round Rock has consistently ranked in the top five MSAs on this list for over a year and has been ranked second in four of the six quarters since the beginning of 2020.

Rising effective rents, a continued boom in building permit applications, and continued rent payments through the pandemic indicate the market is positioned to continue improving as time goes on. With more companies starting and expanding in and around Austin and others still shifting headquarters to the area, the MSA has a chance to improve even long-run demand outlook. These factors, coupled with the increasing vaccination rates across all Texas MSAs (of which Austin-Round Rock leads the way) serve to strengthen the Austin-Round Rock overall apartment market’s already strong image.

## **Dallas-Fort Worth (Figures 13 – 16):**

Actual vacancy in the overall Dallas-Fort Worth apartment market fell from 1Q2021 to 2Q2021. The value in this sector was 7.4 percent, 1.1 percent below the natural vacancy rate. Effective rent growth per unit increased to 9.1 percent. Surpassing pre-pandemic levels, effective rent per unit is the highest ever recorded.

A continued increase in net absorption shows demand for DFW apartments remains strong. Units delivered increased slightly from last quarter and are 39.1 percent higher than they were in 2Q2020, the start of the COVID-19 pandemic. Construction values saw large declines after some momentum in the previous two quarters, in part due to rising construction costs and difficulty finding labor across the country.

Data obtained by the U.S. Census Bureau indicate that Dallas-Fort Worth-Arlington ranked third in the United States for the number of 5+ multifamily unit building permits submitted in 2Q2021. After ranking 15th in 3Q2020, Dallas-Fort Worth rose to number three. This indicates developers are gaining interest in building additional multifamily units.

Based on data provided by RealPage, Inc., 96 percent of multifamily renters in the Dallas-Plano-Irving area and 96.6 percent of multifamily renters in the Fort Worth-Arlington area made full or partial rental payments in 2Q2021. This increased slightly compared to 1Q2021 payments but is still below pre-pandemic levels. Promisingly, the Dallas-Fort Worth MSA is still above national average of 95.1 percent of multifamily renters that have made a full or partial rent payment in 2Q2021. This emphasizes the strength of the rental market in Dallas-Fort Worth and signifies steady improvement.

#### **Houston (Figures 17 – 20):**

The actual vacancy rate for Houston decreased to 8.6 percent this quarter. Additionally, Houston is below the natural vacancy rate of 9.2 percent for the first time since 2Q2016. Effective rent growth per unit improved to 6.0 percent, which exceeds pre-pandemic effective rent growth. This indicates Houston is starting to see considerable relief from the pandemic.

In addition to improvements in the vacancy rate and rent growth, data from RealPage Inc. shows a rise of 0.37 percent in the number of multifamily renters that have made a full or partial rental payment this quarter. At 95.4 percent in 2Q2021, the Houston MSA has not yet hit pre-pandemic rent payment levels. Houston is just below the Texas average of 95.5 percent and just above the national average of 95.1 percent of multifamily renters that have made full or partial rent payments, making it the major MSA with the lowest rent payments in Texas. Still, Houston has a high percentage of rent payments.

In 2020, Houston was continually ranked as the third highest MSA in the country for the number of 5+ unit multifamily building permits submitted. In 1Q2021, Houston dropped ten spots to number thirteen. According to the Census Bureau, Houston has seen some growth in number of permits in 2Q2021, rising in rank to number nine. Net absorption is at a record high for the Houston market. Both units delivered and units under construction dropped at the beginning of the pandemic in 2Q2020. Units delivered saw some relief in 3Q2020 and 4Q2020. However, both construction metrics have continually declined the past two quarters.

Houston's economy has seen some major improvements but, overall, is not quite where it was before the pandemic. Some areas of concern are the lack of units under construction and units



delivered this quarter. Hopefully, with the increase in the number of 5+ multifamily building permits submitted, construction starts and future deliveries will also increase.

**San Antonio (Figures 21 – 24):**

Vacancy in the San Antonio market fell to 7.8 percent this quarter, continuing the downward trend observed during the whole year. Vacancy has not been this low since 1Q2015 and has not dropped below the natural vacancy rate of 8.5 percent since 2Q2016. RealPage Inc. reports that 95.9 percent of renters made payments in the San Antonio market, an increase of 0.6 percent over 1Q2021 figures. This increase is equal to the state average and the second largest growth of all four major Texas MSAs.

Effective rent growth jumped from 2.5 percent in 1Q2021 to 7.8 percent in 2Q2021. This increase over 2Q2020 is a sign of strong recovery from the economic fallout presented by the coronavirus pandemic. San Antonio and DFW are the only major Texas MSAs to experience exclusively positive rent growth since 3Q2020.

Net absorption grew this quarter to a record high. Units under construction declined, likely due to the slump in construction start values the market has been experiencing since 3Q2020. The index is at the lowest it has been since 2011. Construction starts may continue to fall as, according to data from the U.S. Census Bureau, San Antonio-New Braunfels fell from 23rd to 33rd nationally in terms of 5+ family unit building permits submitted over the quarter.

San Antonio, historically the smallest multifamily rental market among the major Texas MSAs, has performed well throughout the pandemic and appears poised to continue this trend. The sustained growth in effective rents and positive employment and vaccination rates are likely to encourage investment in the market in coming quarters.

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

# Class A Apartment Sector

## **Austin-Round Rock (Figures 25 – 28):**

The Austin-Round Rock Class A apartment market's actual vacancy rate continues to fall, passing pre-pandemic levels. At 7.9 percent, the vacancy rate has not been this low since 2Q2013 and is 1.1 percent below the natural vacancy rate of 9.0 percent. In line with overall data for Austin, effective rent growth has increased for Class A apartments to 16.8 percent. This is a major increase from 1Q2021 and the highest growth rate among all Texas MSAs.

Units under construction have slightly increased compared with 1Q2021. After pre-pandemic fluctuating values, the construction starts index made huge progress this quarter and is now at a record high. However, units delivered have declined, reaching the lowest amount reported since 1Q2013 and decreasing significantly from 1Q2021. Net absorption saw a minimal decline compared with 1Q2021. The influx of new tech companies moving to the Austin area bodes well for the Class A market.

## **Dallas-Fort Worth (Figures 29 – 32):**

Actual vacancy in the DFW Class A apartment market continued its decline, dropping to 9.6 percent in 2Q2021 from 11.2 percent in 1Q2021. This is still above the natural vacancy rate of 9.1 percent. A large rise in real effective rents accompanied this increase in occupancy, with effective rent growth rising to 11.6 percent this quarter.

Net absorption fell slightly, halting the continual increase seen since 2Q2020. Decreasing units delivered suggests an extended decrease in net absorption may be in the future. A fall in units under construction suggests the same in the long term. The spike in construction start values is the highest it's been since 4Q2015. This should increase units under construction in the coming months, which would not immediately impact net absorption but would increase DFW Class A supply in a few years' time.

## **Houston (Figures 33 – 36):**

Houston's Class A apartment vacancy fell to 9.6 percent, the first-time vacancy has been sub-10 percent since 1Q2019 and the first-time vacancy has been below the natural vacancy rate of 9.7 percent since the same period. Effective rents grew slightly to reach a new high. Year-over-year effective rent growth totaled 7.8 percent, the first positive growth since 1Q2020. Both of these figures are encouraging, suggesting potential recovery in a struggling Class A market.

In terms of net absorption, Houston's Class A market had its best quarter since 3Q2017. Units delivered fell by more than half from 1Q2021. Units under construction continue to fall as well, forecasting a continued decrease in units delivered in the future and, possibly, future decreased absorption. Should supply and demand trends continue as they are, expect rents in Houston

Class A apartments to rise in coming years. Houston Class A markets, always more volatile than other Texas MSAs due to the local economy's oil and gas foundation, showed signs of life in 2Q2021. Rising construction values indicate investors see a potential increase in future demand.

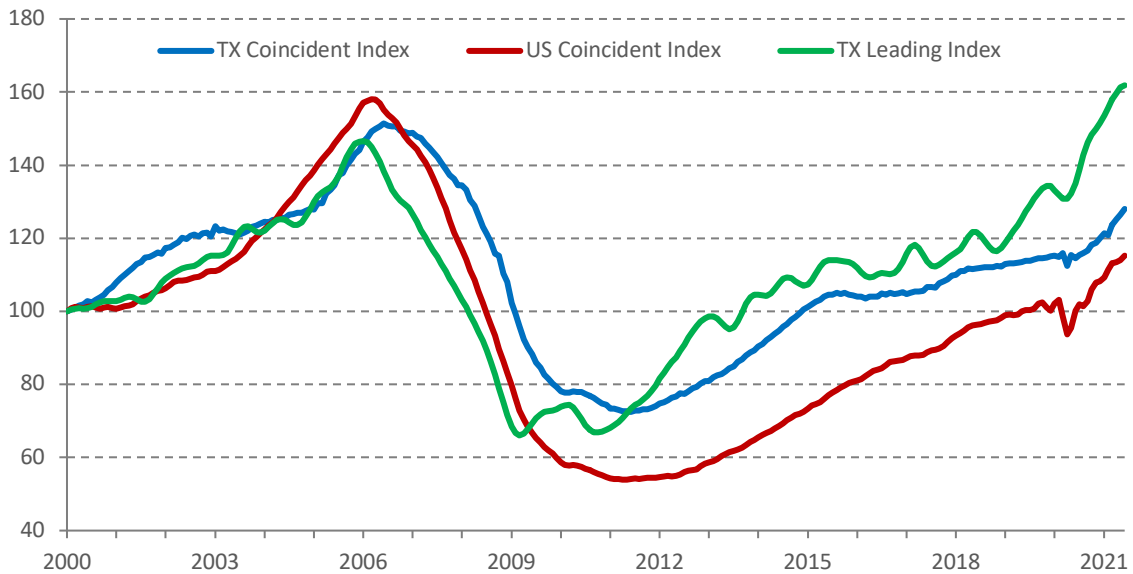
**San Antonio (Figures 37 – 40):**

San Antonio's Class A apartment market vacancy rates dropped once again to 6.8 percent during 2Q2021, recording declines for five consecutive quarters. This metric is also notably below the natural vacancy rate of 10 percent for Class A apartments in the San Antonio MSA. Effective rent growth per unit saw a substantial rise to 12 percent. At record high rents per unit, this MSA shows promise for steady recovery in the Class A market.

Net absorption saw a slight decline. Units under construction showed some growth but are still not at the level observed prior to the pandemic. Delivered units declined 84.9 percent in a year-over-year comparison. This is the highest decline for any Texas MSA and the lowest this metric has been since 4Q2011. In part due to the continued rise in construction material costs and rising labor demand, construction in the San Antonio market has taken a hit and is now seeing the after-effects of the pandemic.

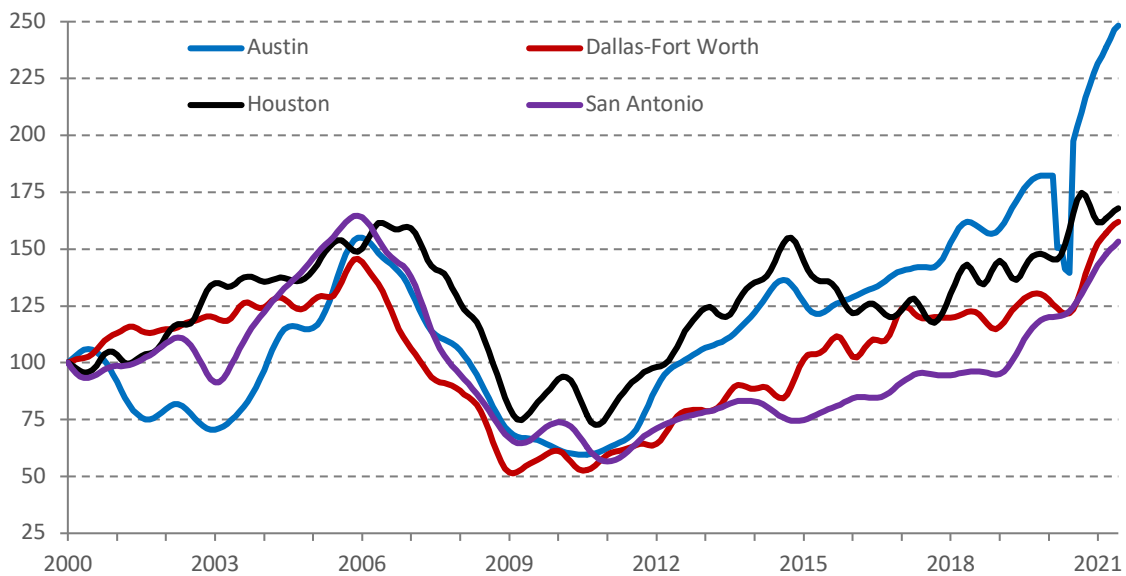
# Figures

**Figure 1. Texas Residential Construction Index**  
(Index Jan 2000 = 100)



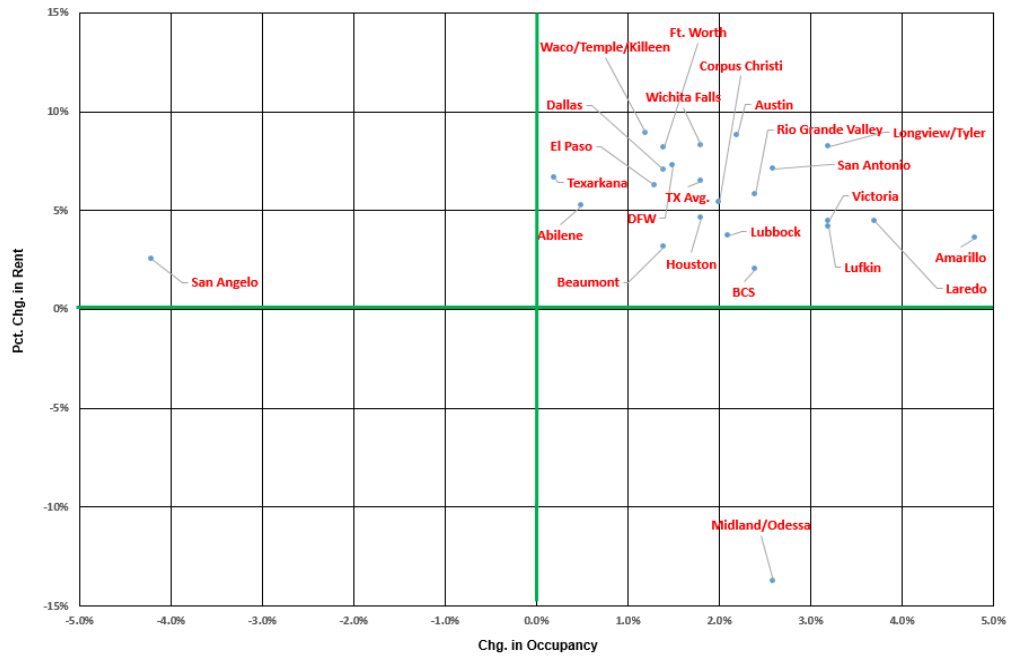
Source: Texas Real Estate Research Center at Texas A&M University

**Figure 2. Major MSAs Residential Construction Leading Index**  
(Index Jan 2000 = 100)



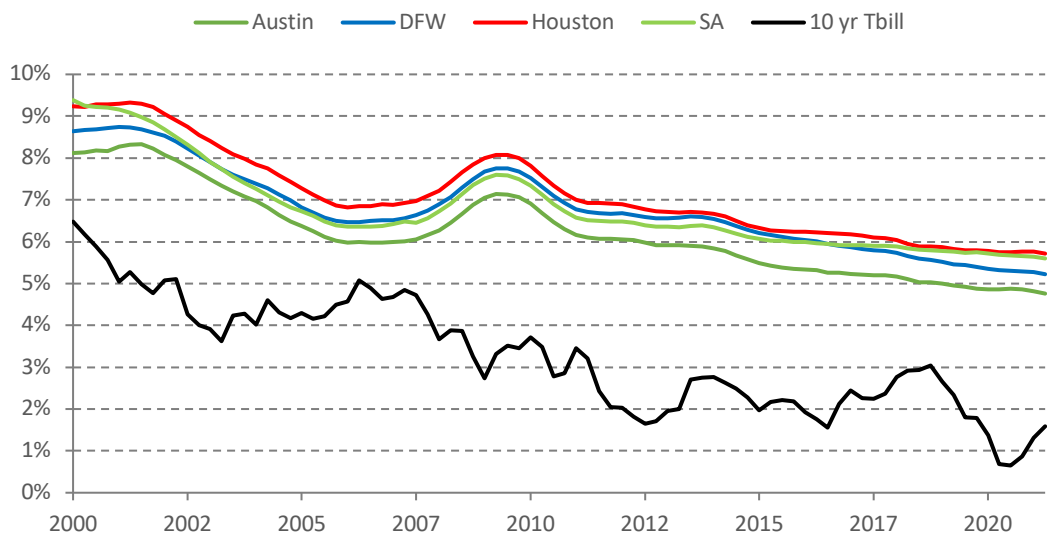
Source: Texas Real Estate Research Center at Texas A&M University

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



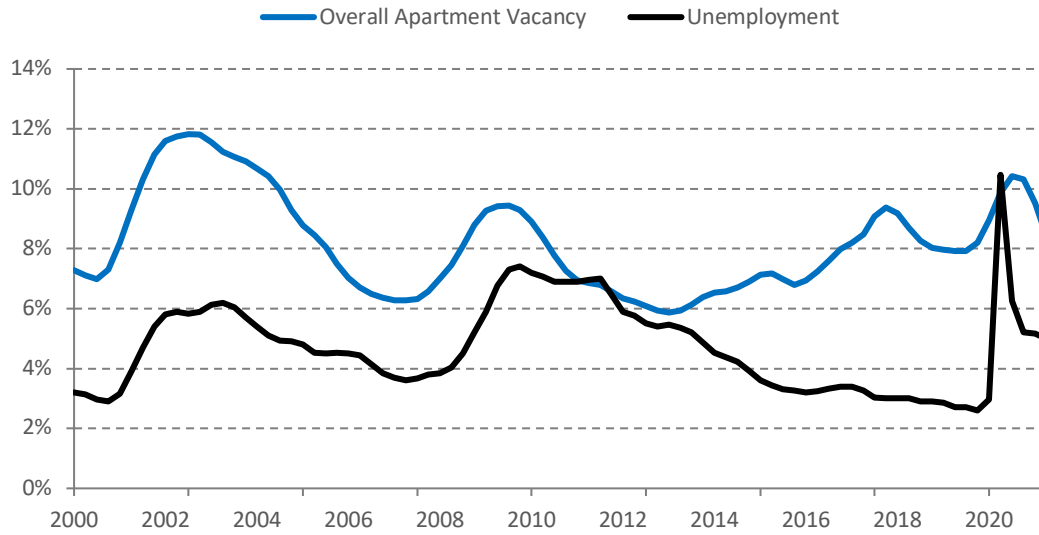
Sources: ALN Apartment Data and Texas Real Estate Research Center at Texas A&M University

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



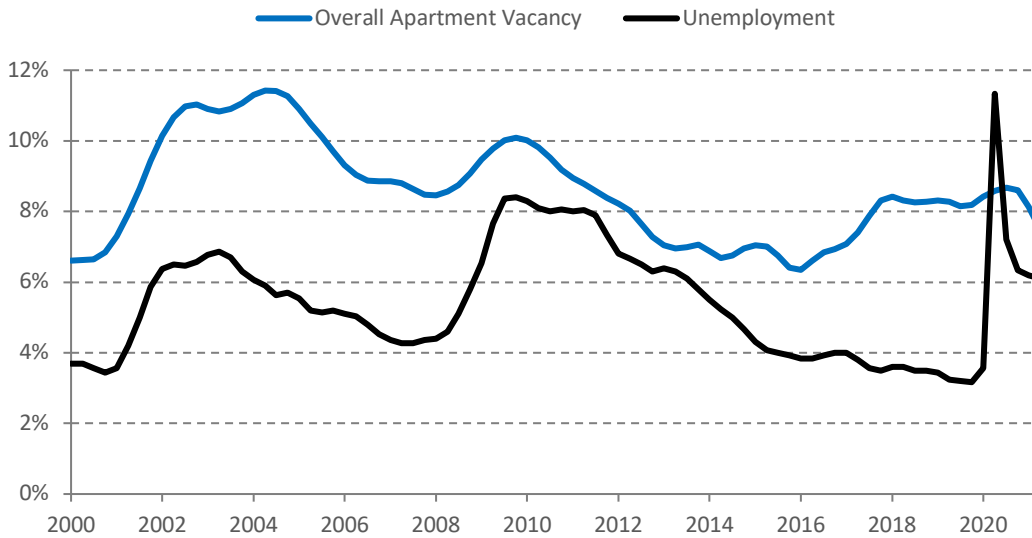
Source: CoStar and Texas Real Estate Research Center at Texas A&M University

**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

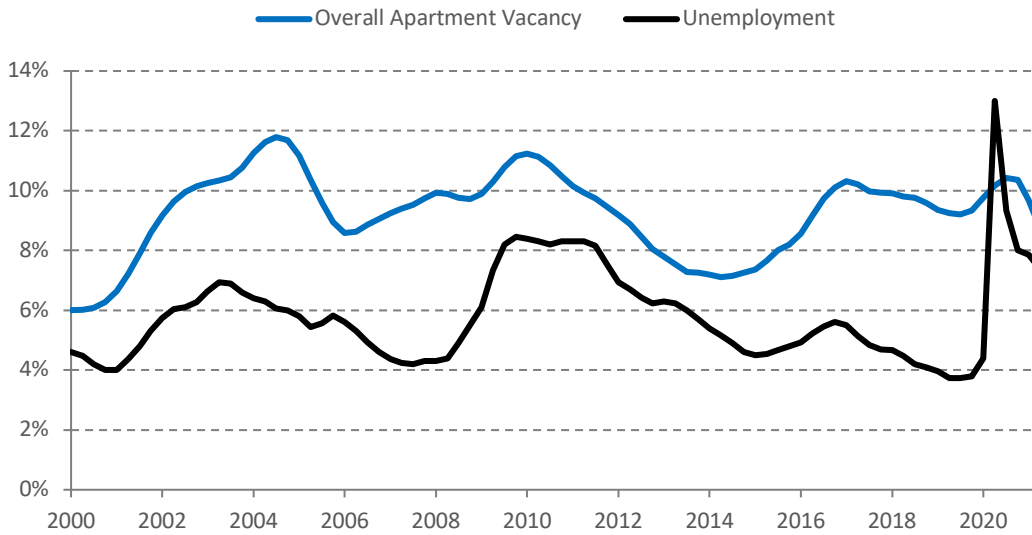
**Figure 6. DFW Apartment Vacancy Rates and Unemployment (SA and TC)\***



\*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

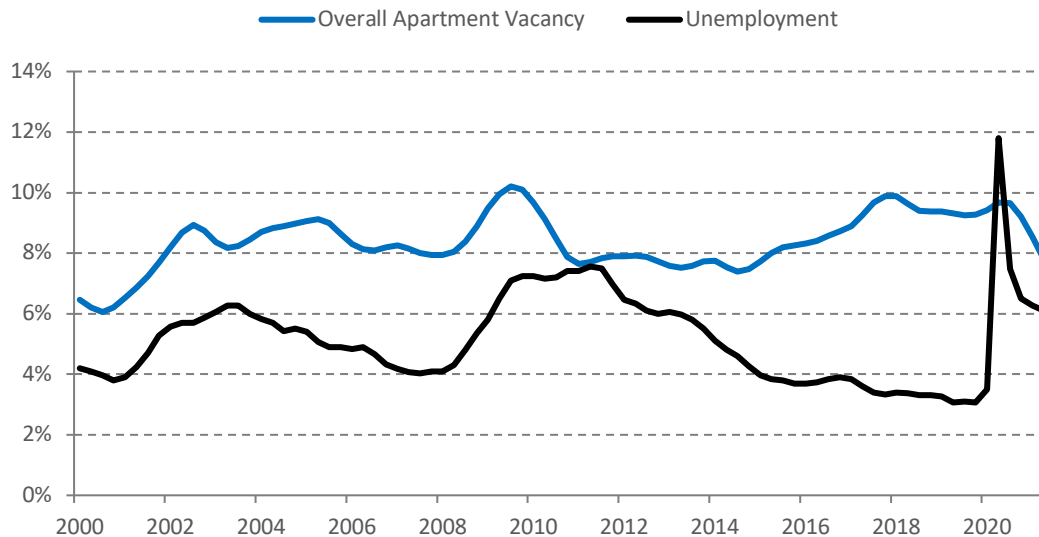


**Figure 7. Houston Apartment Vacancy Rates and Unemployment (SA and TC)\***



\*Note: Vacancy rates seasonally adjusted and trend cycled, unemployment seasonally adjusted.  
Sources: Bureau of Labor Statistics, CoStar, 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  
▲ 91.6%

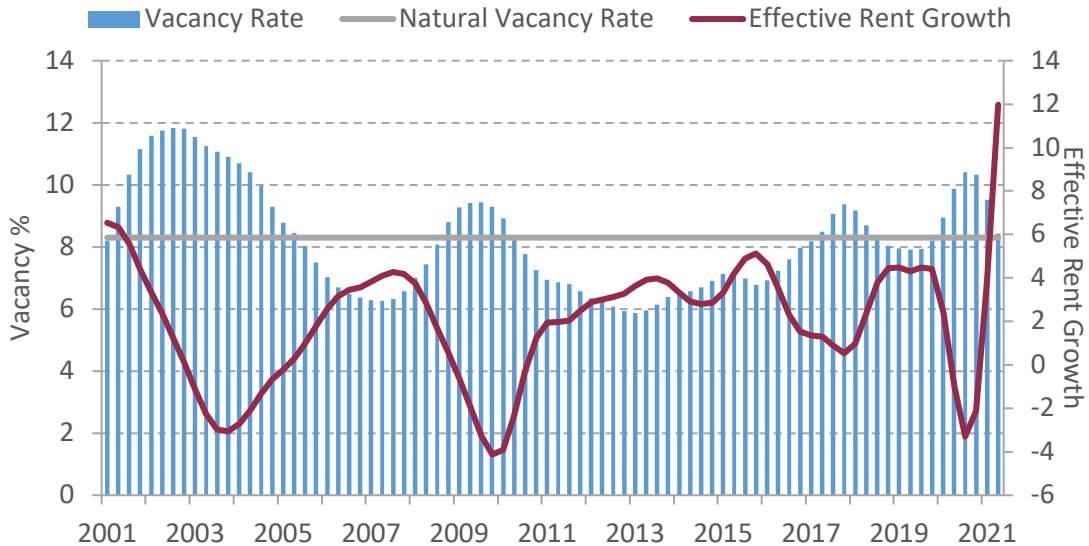
EFFECTIVE RENT GROWTH (PER UNIT)  
▲ 13.5%

NET ABSORPTION (UNITS)  
▼ 4,867

CONSTRUCTION STARTS  
▼

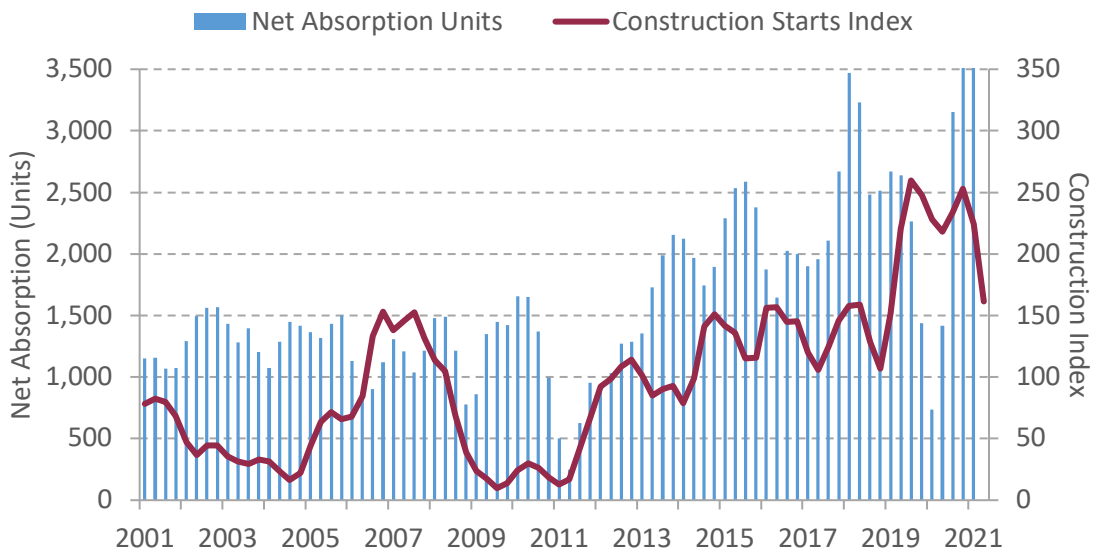
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.  
Sources: CoStar and Texas Real Estate Research Center

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



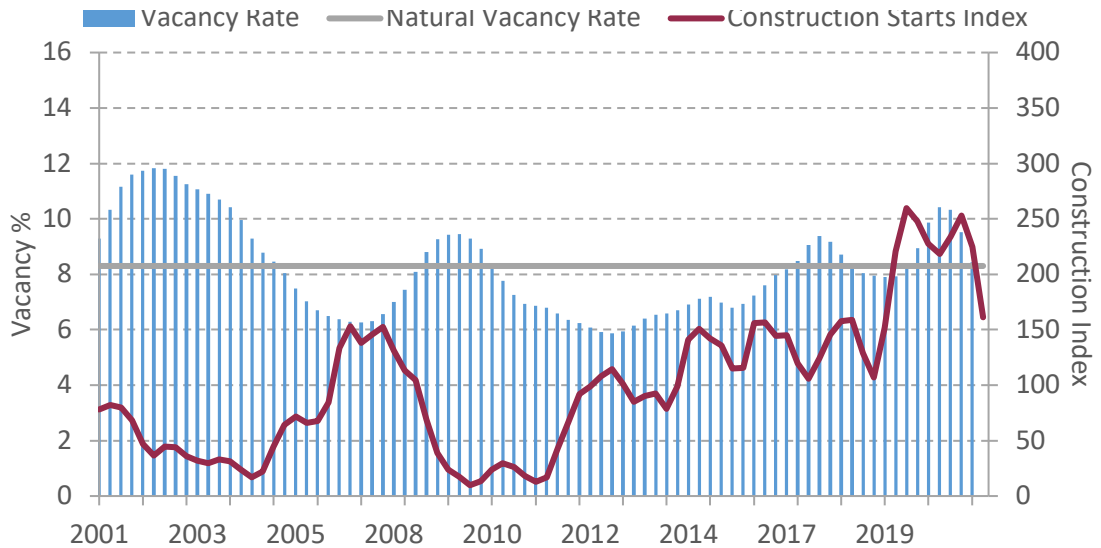
\*Note: Seasonally adjusted and trend-cycle component.  
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

**Figure 10. Austin Overall Net Absorption and Construction Starts Index (SA and TC)\*  
(Index 2000 Q1 = 100)**



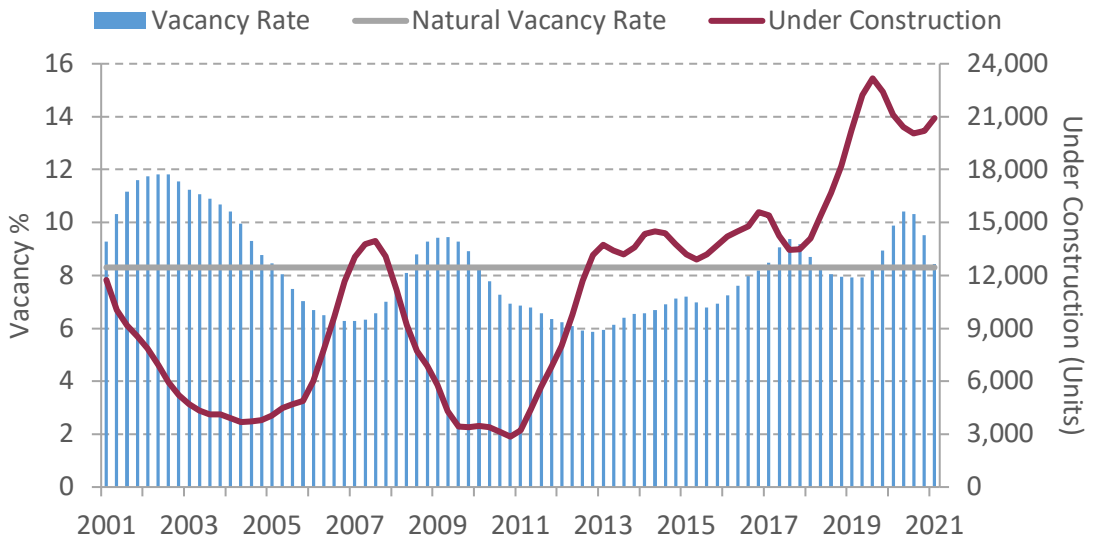
\*Note: Seasonally adjusted and trend-cycle component.  
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

**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  
▲ 92.6%

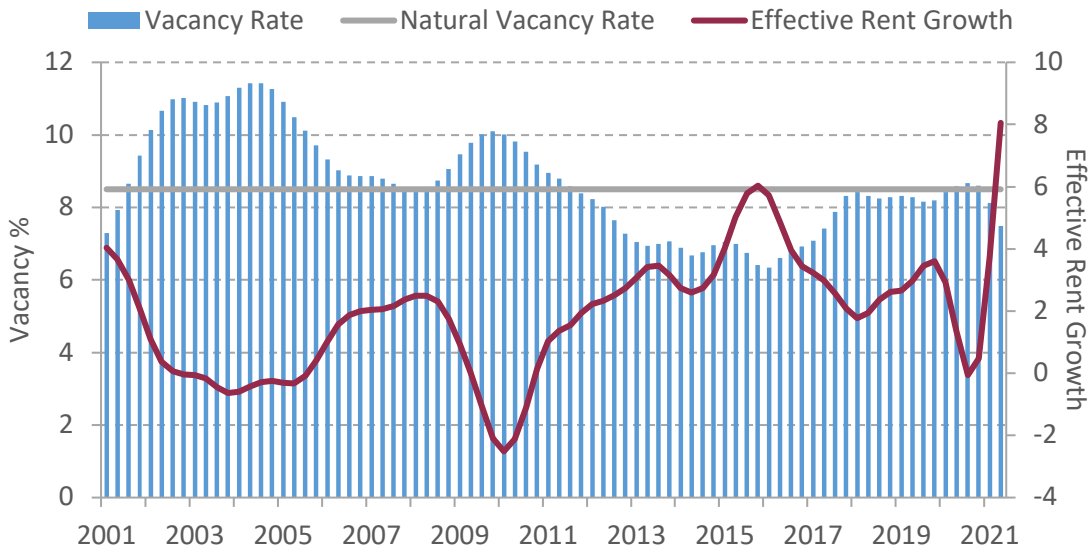
EFFECTIVE RENT GROWTH (PER UNIT)  
▲ 9.1%

NET ABSORPTION (UNITS)  
▲ 11,580

CONSTRUCTION STARTS  
▼

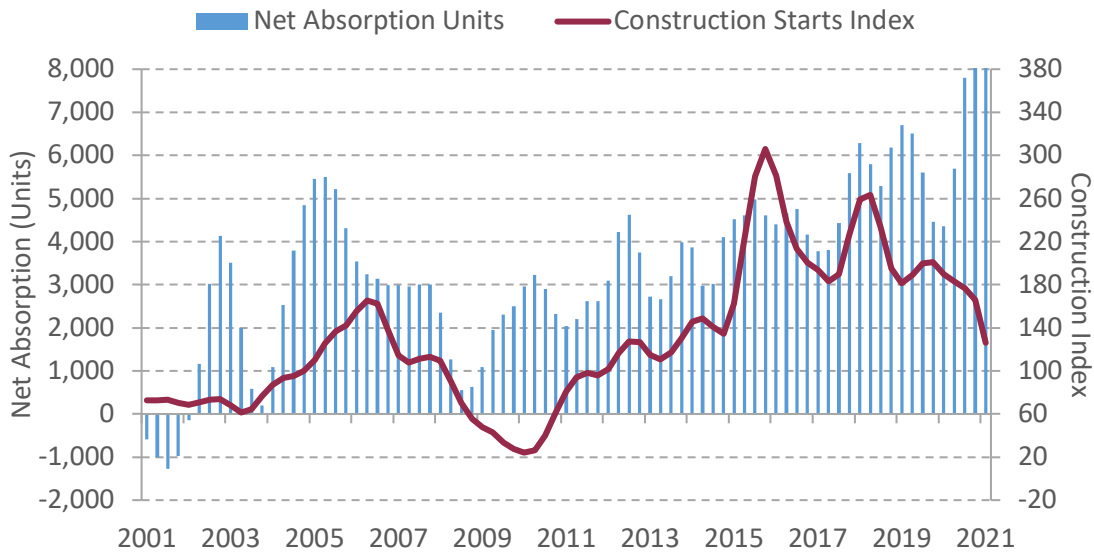
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.  
Sources: CoStar and Texas Real Estate Research Center

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



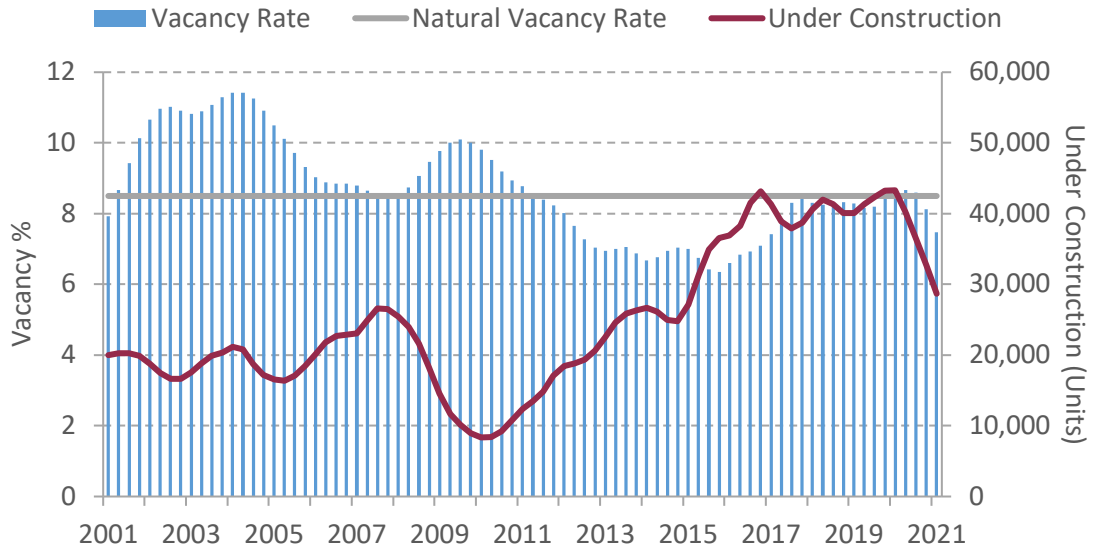
\*Note: Seasonally adjusted and trend-cycle component.  
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

**Figure 14. DFW Overall Net Absorption and Construction Starts Index (SA and TC)\***  
(Index 2000 Q1 = 100)



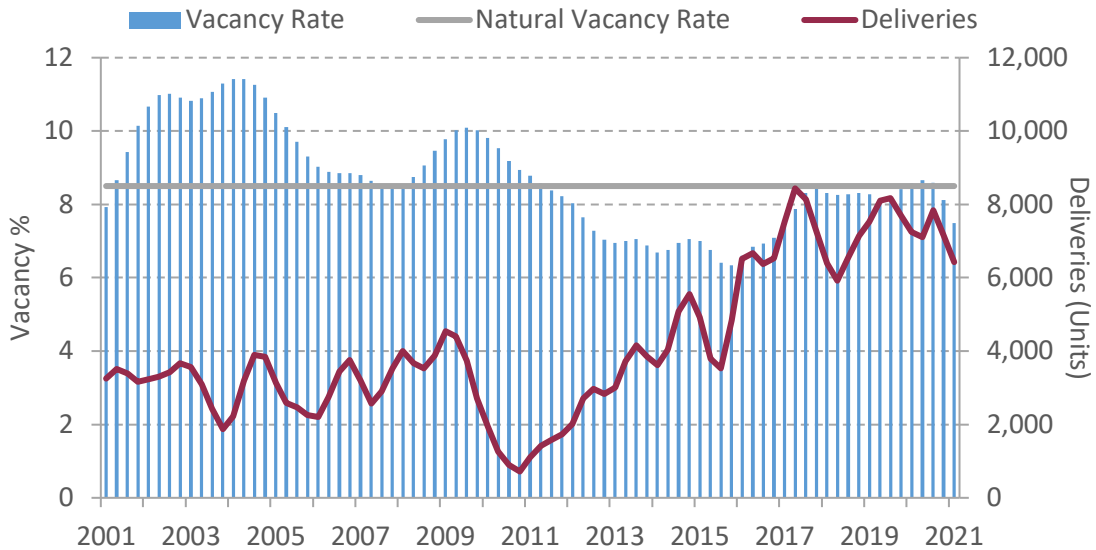
\*Note: Seasonally adjusted and trend-cycle component.  
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

**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  
▲ 91.4%

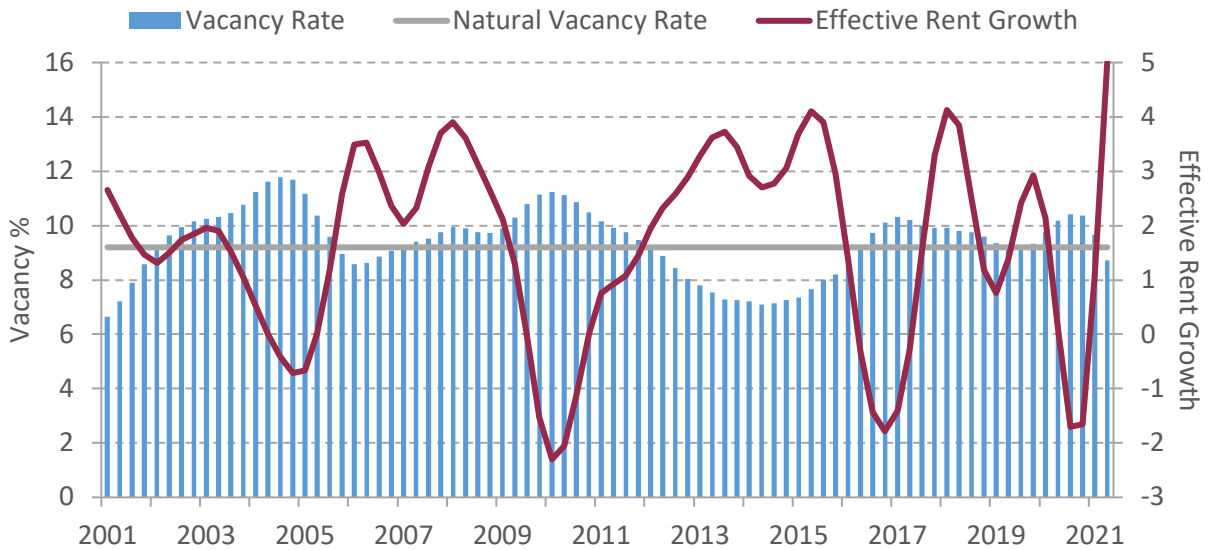
EFFECTIVE RENT GROWTH (PER UNIT)  
▲ 6.0%

NET ABSORPTION (UNITS)  
▲ 10,665

CONSTRUCTION STARTS  
▼

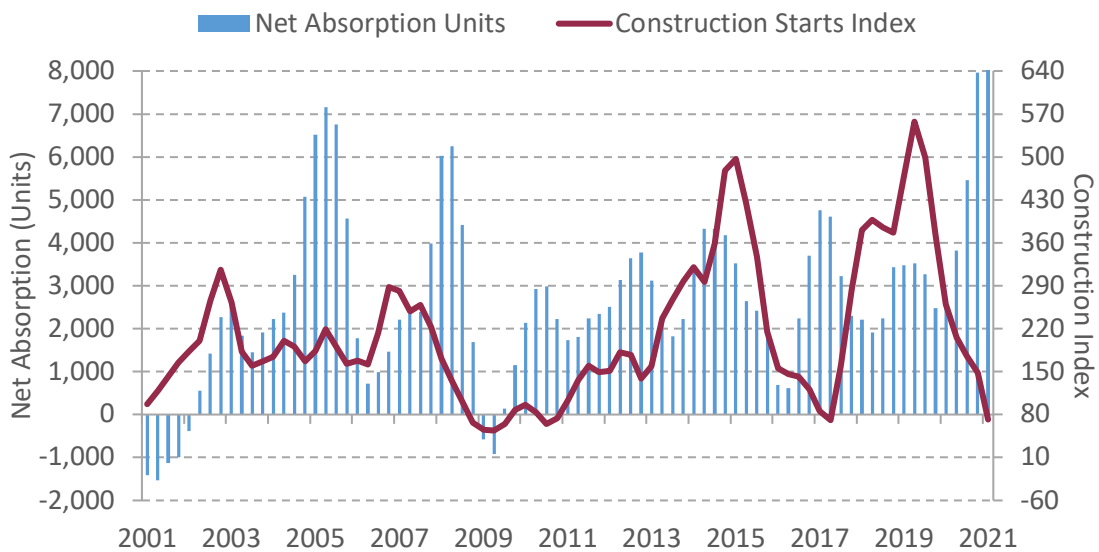
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.  
Sources: CoStar and Texas Real Estate Research Center

**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

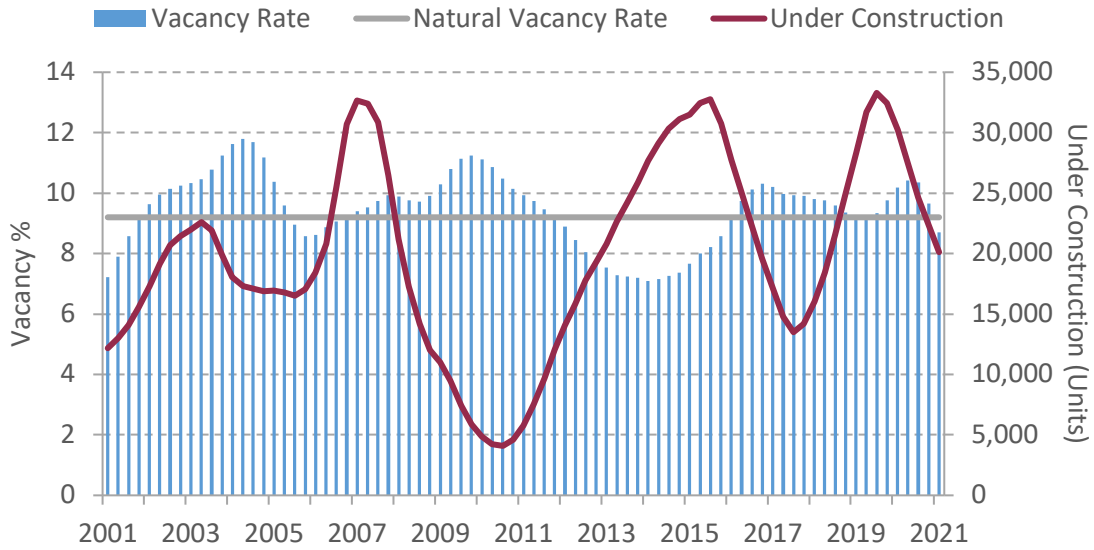
**Figure 18. Houston Overall Net Absorption and Construction Starts Index (SA and TC)\***  
(Index 2000 Q1 = 100)



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

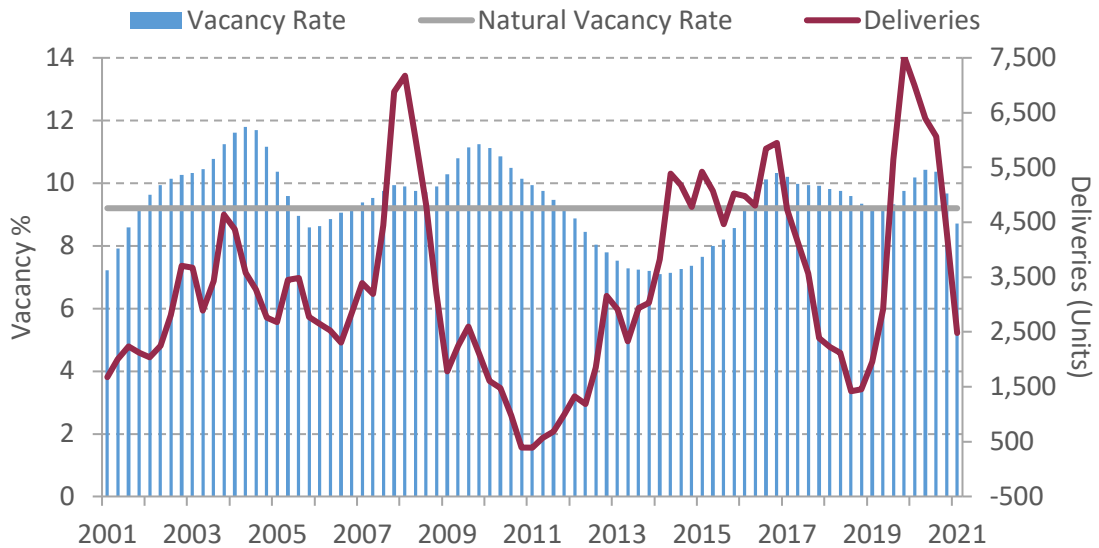


**Figure 19. Houston Overall Vacancy and Units Under Construction (SA and TC)\***



\*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  
▲ 92.2%

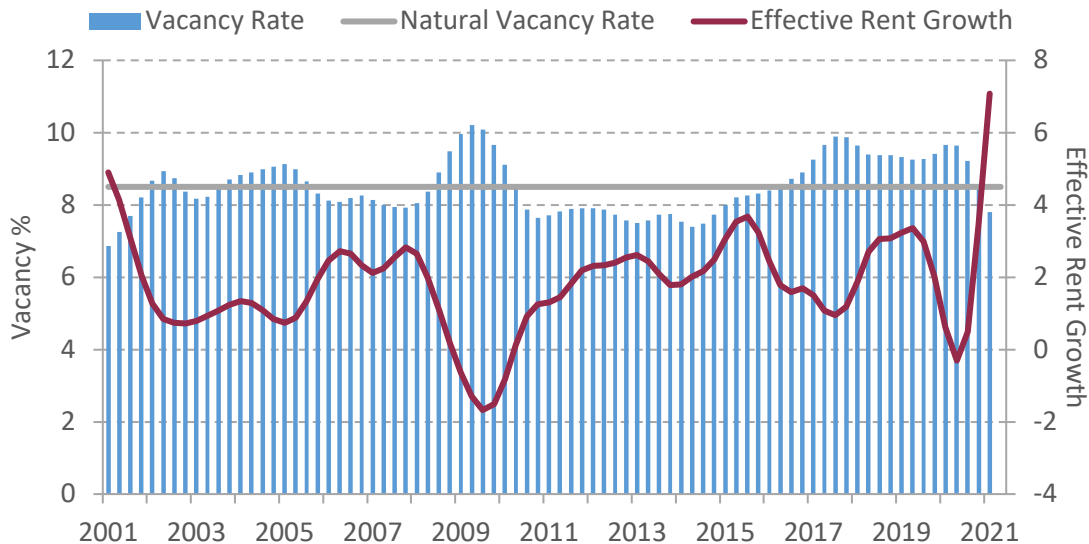
EFFECTIVE RENT GROWTH (PER UNIT)  
▲ 7.8%

NET ABSORPTION (UNITS)  
▲ 2,823

CONSTRUCTION STARTS  
▼

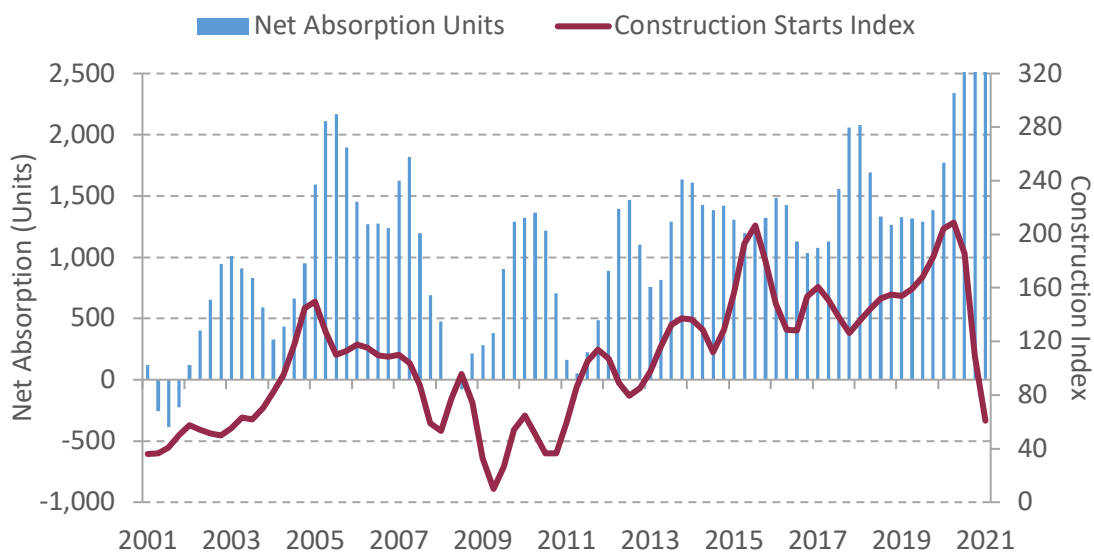
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.  
Sources: CoStar and Texas Real Estate Research Center

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



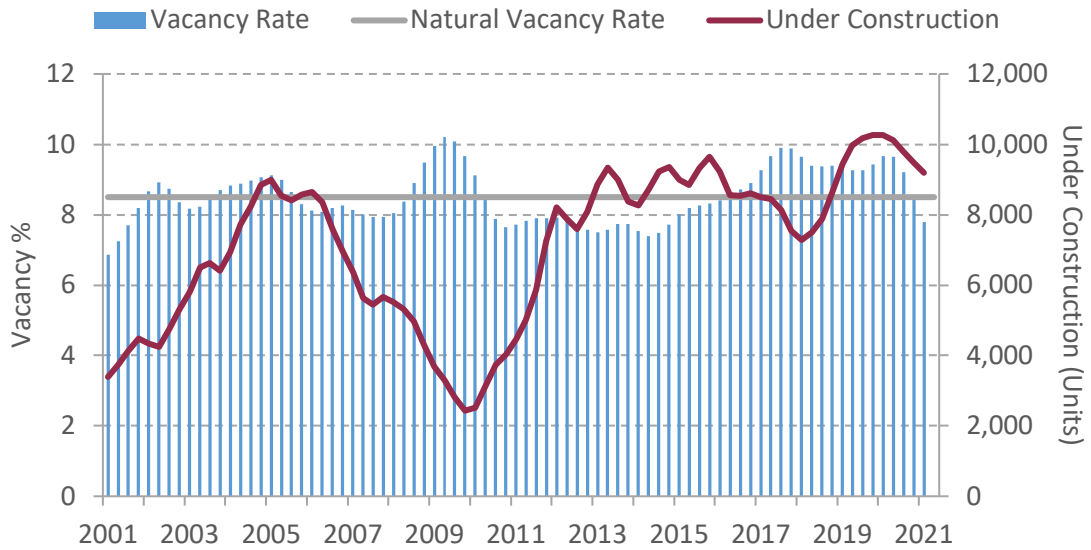
\*Note: Seasonally adjusted and trend-cycle component.  
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



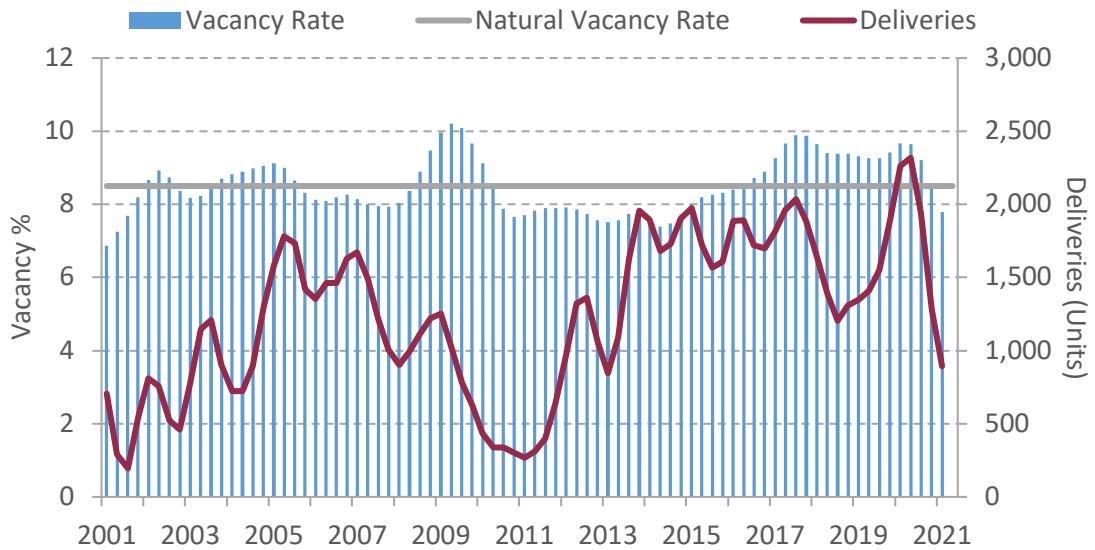
\*Note: Seasonally adjusted and trend-cycle component.  
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

**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  
▲ 92.1%

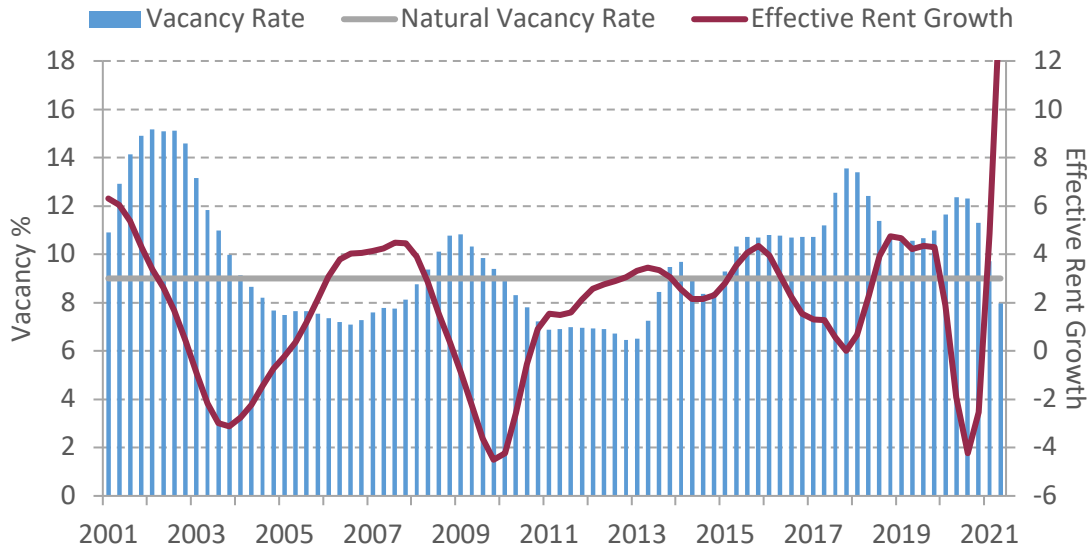
EFFECTIVE RENT GROWTH (PER UNIT)  
▲ 16.8%

NET ABSORPTION (UNITS)  
▼ 2,594

CONSTRUCTION STARTS  
▲

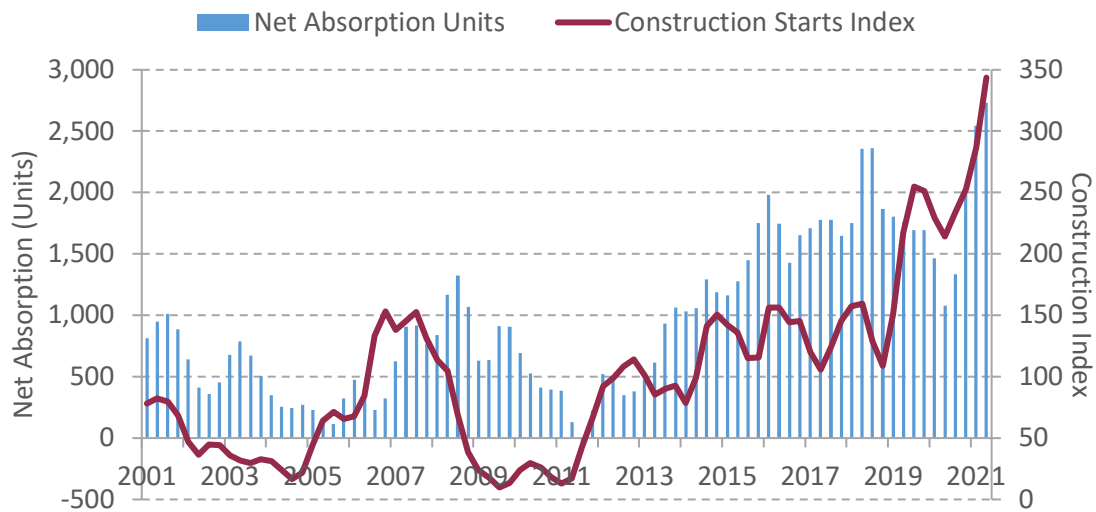
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.  
Sources: CoStar and Texas Real Estate Research Center

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



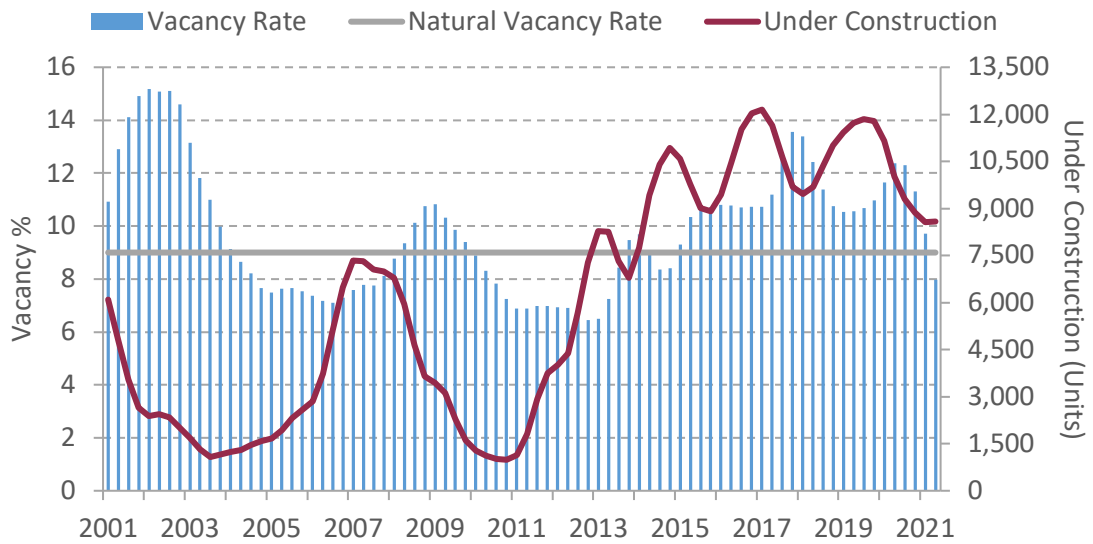
\*Note: Seasonally adjusted and trend-cycle component.  
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



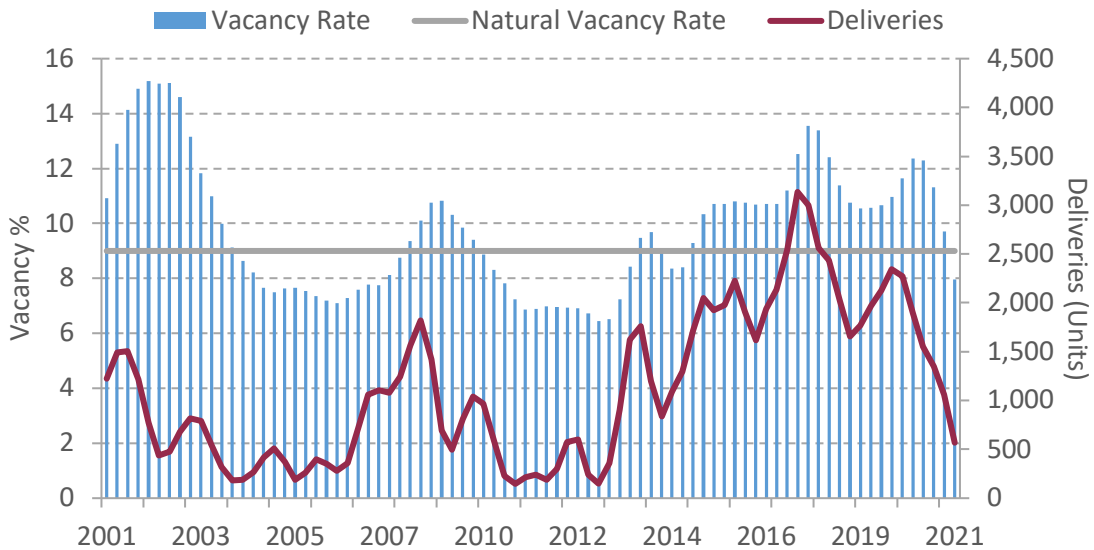
\*Note: Seasonally adjusted and trend-cycle component.  
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

**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  
▲ 90.4%

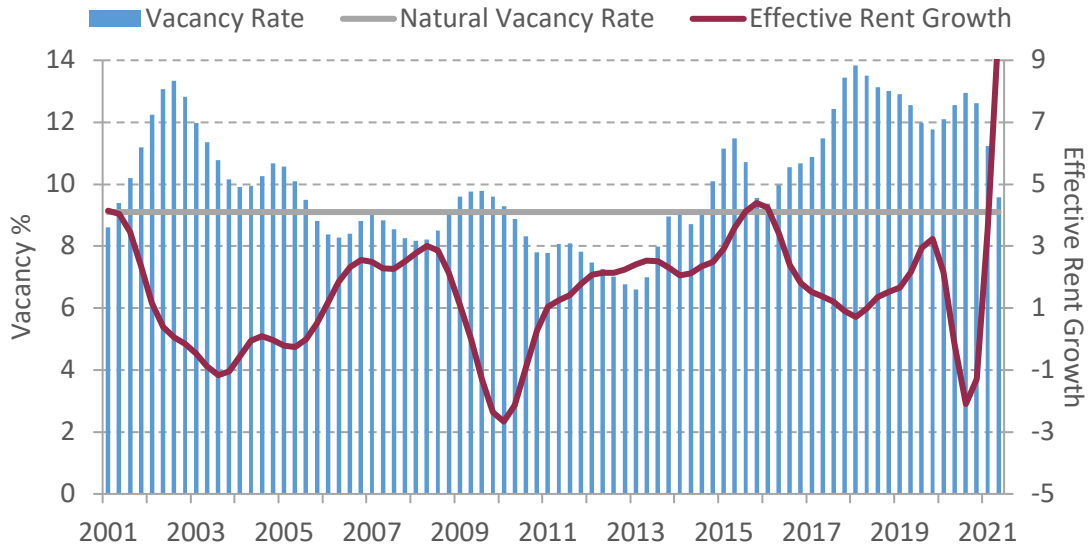
EFFECTIVE RENT GROWTH (PER UNIT)  
▲ 11.6%

NET ABSORPTION (UNITS)  
▼ 7,443

CONSTRUCTION STARTS  
▲

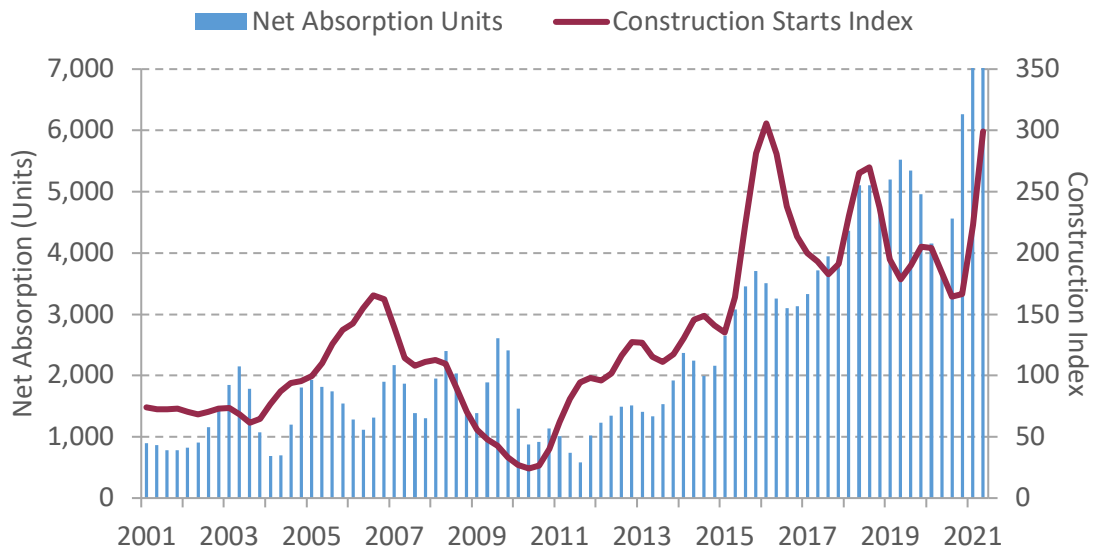
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.  
Sources: CoStar and Texas Real Estate Research Center

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



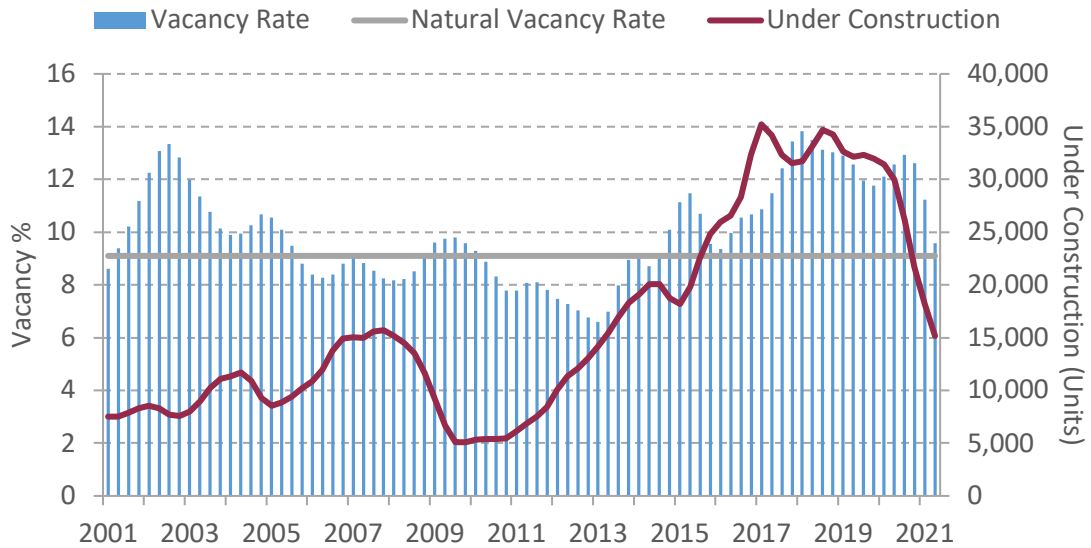
\*Note: Seasonally adjusted and trend-cycle component.  
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



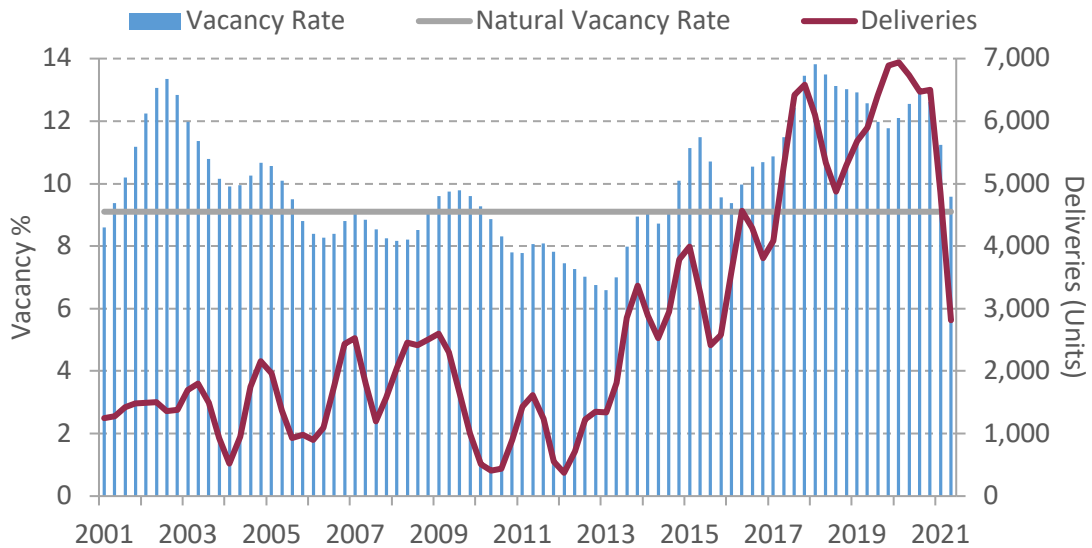
\*Note: Seasonally adjusted and trend-cycle component.  
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

**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  
▲ 90.4%

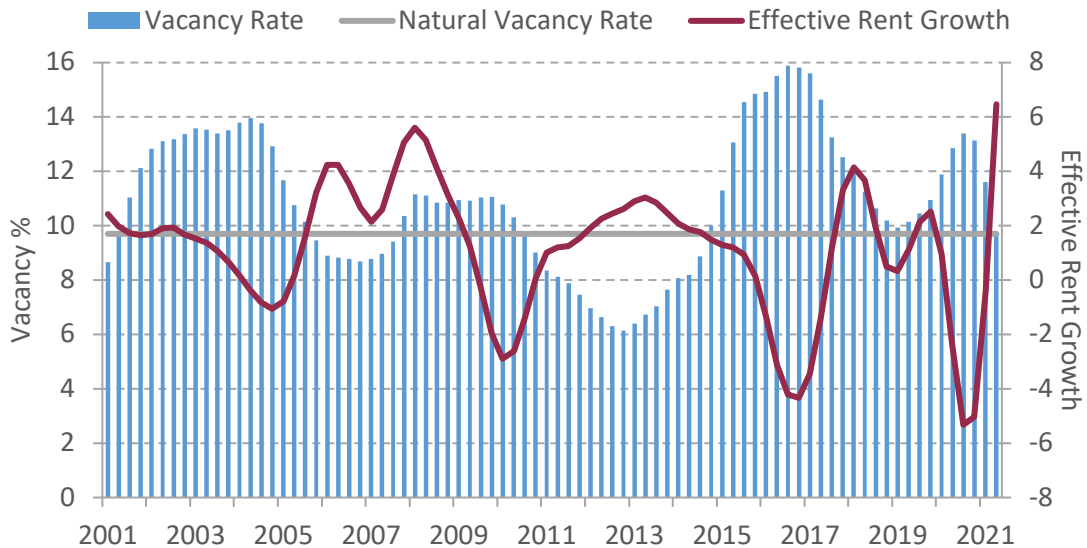
EFFECTIVE RENT GROWTH (PER UNIT)  
▲ 7.8%

NET ABSORPTION (UNITS)  
▲ 5,987

CONSTRUCTION STARTS  
▲

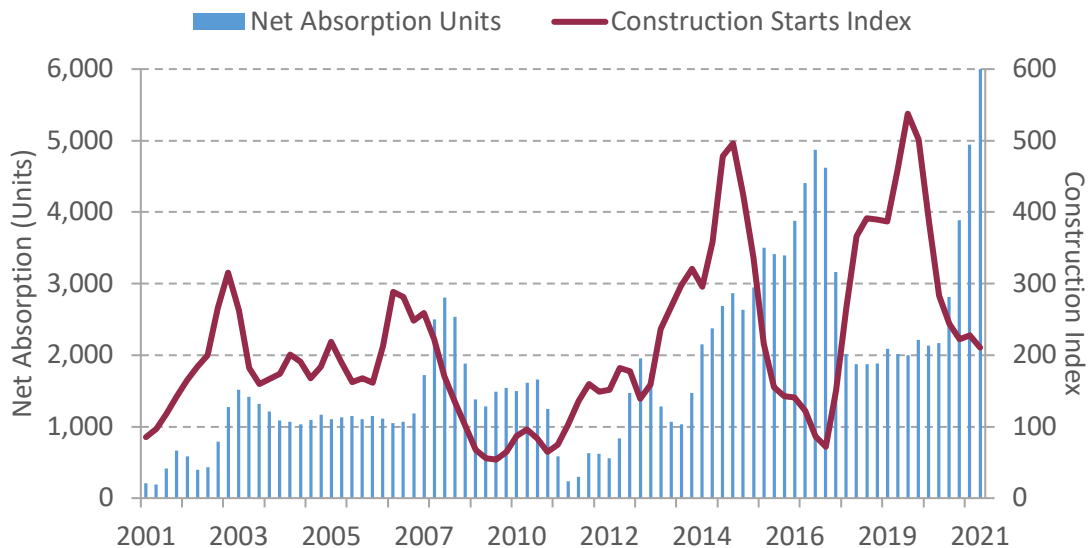
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.  
Sources: CoStar and Texas Real Estate Research Center

**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

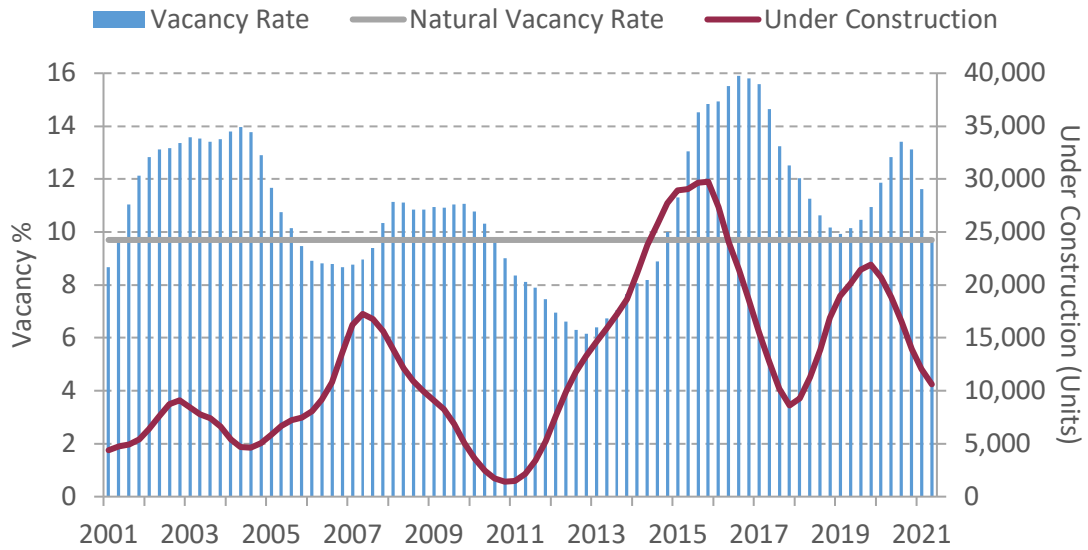
**Figure 34. Houston Class A Net Absorption and Construction Starts Index (SA and TC)\*  
(Index 2000 Q1 = 100)**



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

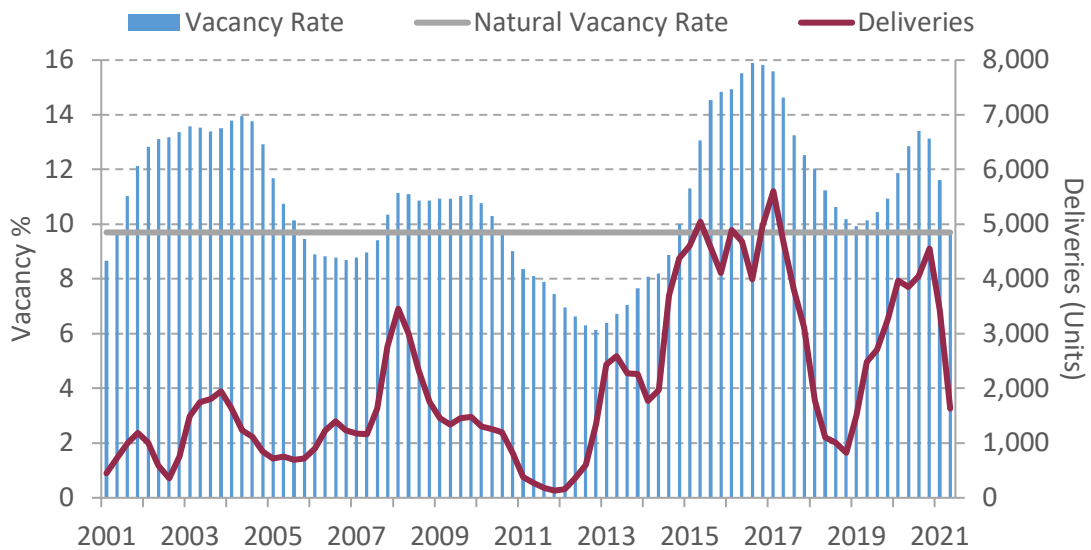


**Figure 35. Houston Class A Vacancy and Units Under Construction (SA and TC)\***



\*Note: Seasonally adjusted and trend-cycle component.  
Sources: CoStar 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  
▲ 93.2%

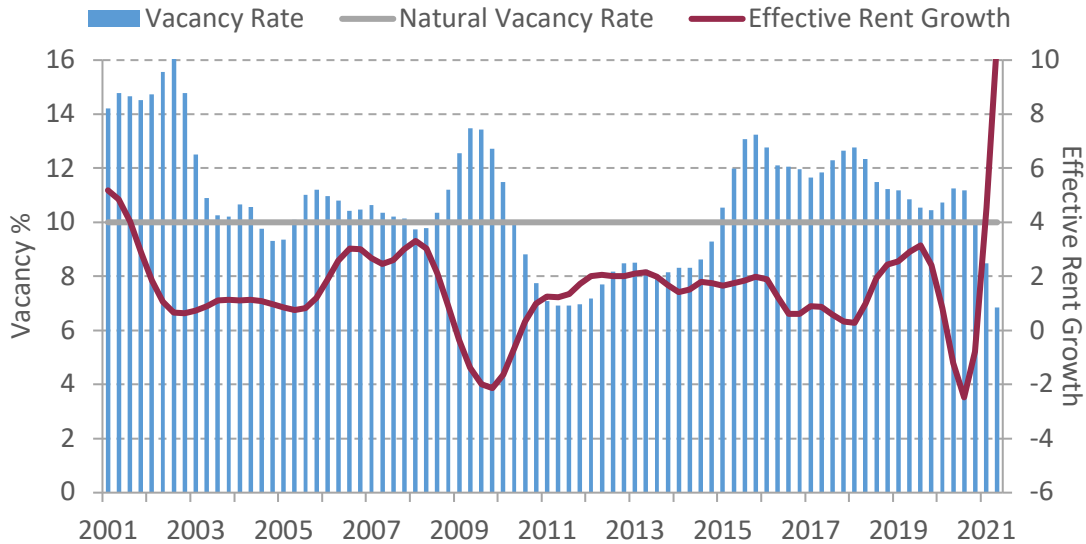
EFFECTIVE RENT GROWTH (PER UNIT)  
▲ 12.0%

NET ABSORPTION (UNITS)  
▼ 1,194

CONSTRUCTION STARTS  
▲

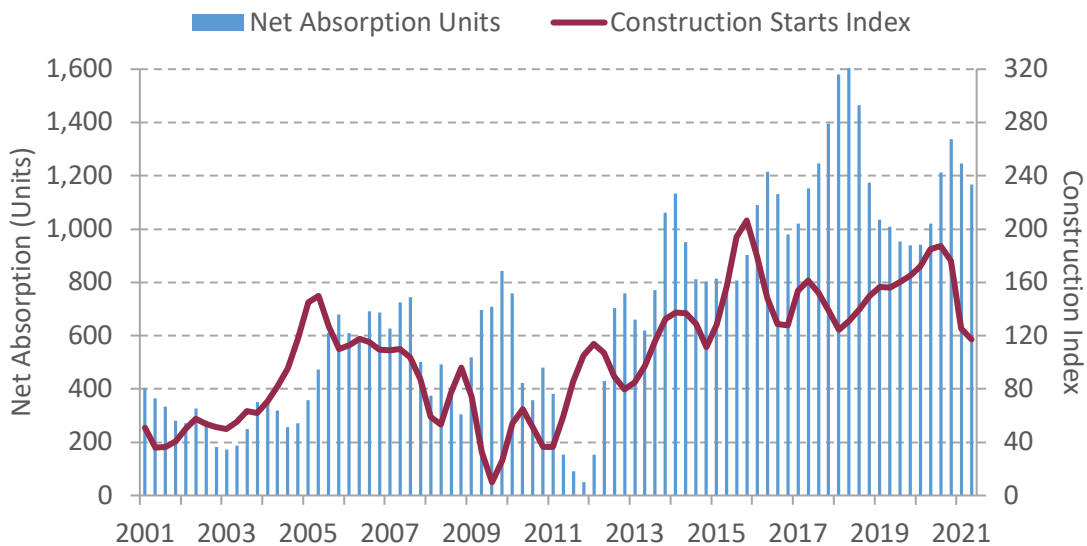
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.  
Sources: CoStar and Texas Real Estate Research Center

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



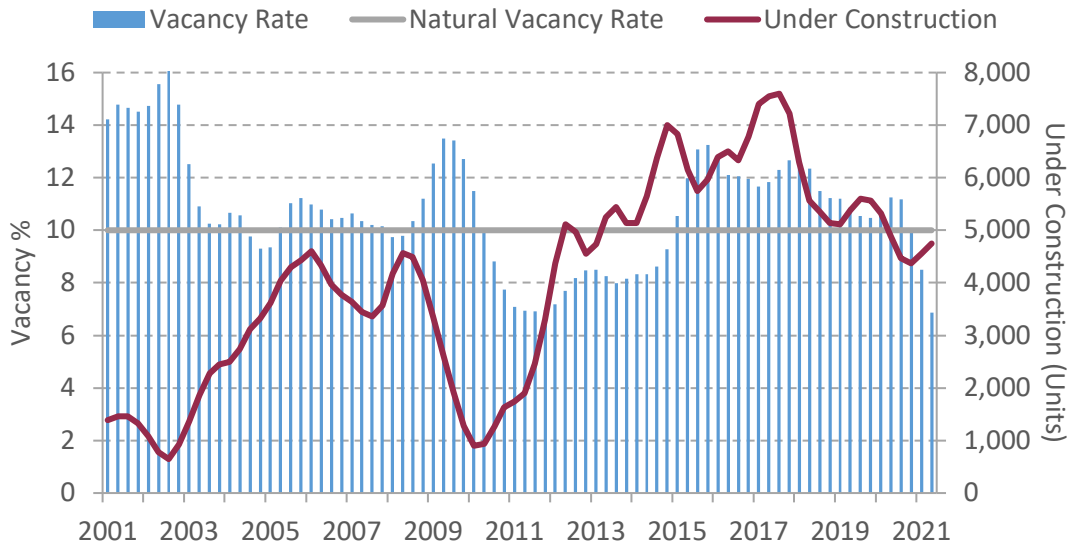
\*Note: Seasonally adjusted and trend-cycle component.  
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



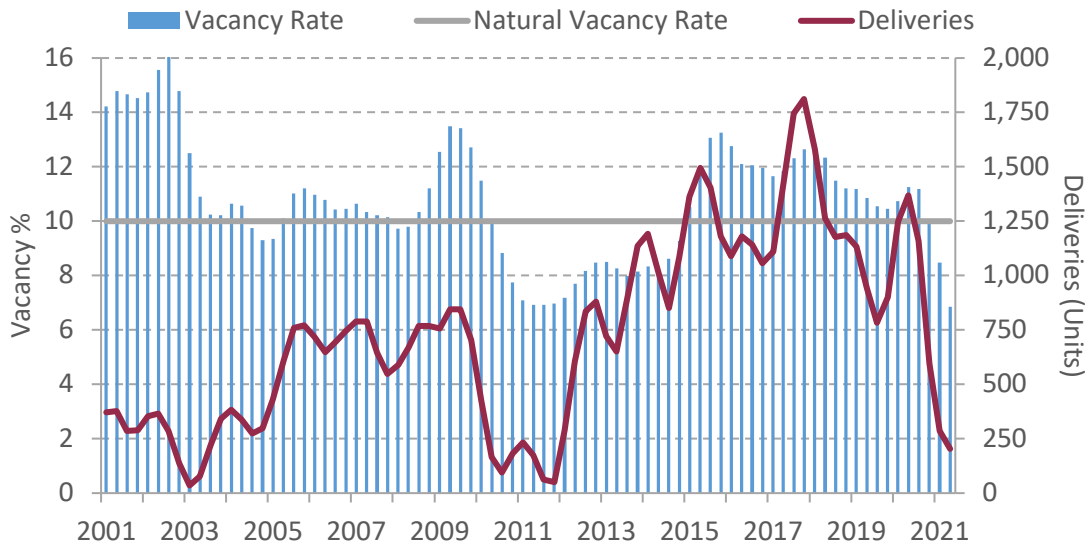
\*Note: Seasonally adjusted and trend-cycle component.  
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

**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.



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