Forecast shows moving this summer is the time to do it as concessions cool in ‘18/’19

- Texas apartment construction has been on a sharp rise, yet the concessions renters achieve by signing a new lease for a recently built apartment clearly depends on the stage of the local market construction cycle.
- That being said, CBRE Research completed a series of Class A apartment surveys, for both stabilized and in lease-up properties, to flush out the difference between quoted and quantified concessions. The results show 2017 is the year to hire a mover.

As the Texas multifamily construction boom continues, Dallas/Fort Worth (DFW) leads the state with the most deliveries expected this year at 28,900 units. Throughout the recent construction cycle (2015-2017 year-to-date), the major Texas metros delivered more than 133,000 units, and an additional 74,400 units will deliver by 2019. This wave of new development has led to increasing rents and concessions, but not all apartment markets are equal.

Average Class A Multifamily Rental Concessions

HOUSTON	DFW	SAN ANTONIO	AUSTIN
1.5 months free	1 month free	1 month free	<1 month free
or	or	or	or
$2,700 savings	$1,990 savings	$1,650 savings	$1,670 savings

Source: CBRE Research, July 2017.

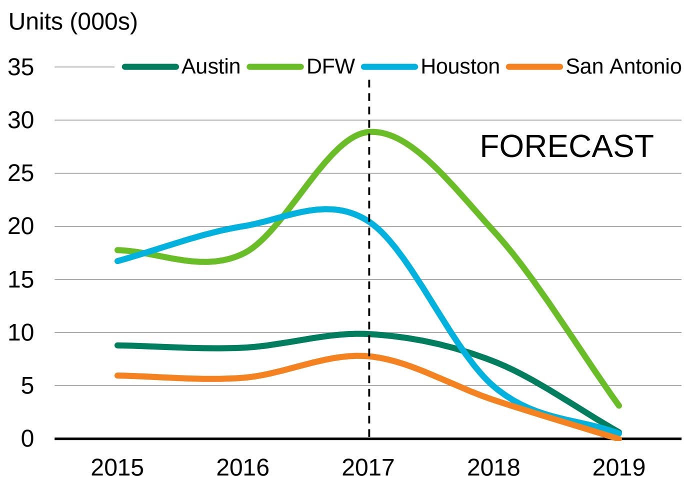
For example, at the close of 2016, concessions in the Houston Class A market reached new highs with an average of two months free and as much as three for some properties in lease-up. These concessions provide renters with a sizable incentive to move (rather than renew) and in the process, possibly leverage an upgrade. However, improving fundamentals chipped away at the current move-in specials, which are now down to approximately six weeks of free rent. While not as advantageous as last year, for an expanding young renter demographic, the savings of $2,700 today is a significant incentive to sign that new lease.

On the other hand, CBRE Research found Austin apartments offered the lowest concessions with an average of only three free weeks. On a whole, Texas Class A properties are offering one month of free rent, which equates to almost $2,000 in savings for Class A renters; free rent is standard during lease-up, but the amounts vary.

Growing pipeline feeds rent increases

While Houston’s Class A market is still recovering from an ill-timed surplus of deliveries, DFW is on track to add 30% more units than Houston by 2019. Still, DFW’s robust pipeline has not made the dent in Class A occupancy like what was seen in Houston last year. At 93.4%, the Metroplex currently has the highest Class A stabilized occupancy of all major Texas metros. Even with a full pipeline, the healthy occupancy in Big D caused Class A effective rents to climb 3.2% in the last six months, while concessions remained flat at one month’s free rent.

Texas Multifamily Pipeline



Source: CBRE Research, Axiometrics, July 2017.

Class A Effective Rent Growth

	Rent Growth 3 months	Rent Growth 6 months	Rent Growth 12 months
Dallas/Fort Worth	2.1%	3.2%	3.7%
San Antonio	1.6%	2.9%	1.5%
Austin	1.9%	1.5%	0.3%
Houston	1.1%	1.7%	-1.8%

Source: CBRE Research, Apartment Data Services, July 2017.

But what about effective rents? Increasing high-priced inventories are affecting rents in major metros with mixed effective results, especially in the past 90 days. Take San Antonio as an example: as more Class A product is completed, Alamo City renters should see rising apartment rents because the metro has the second highest effective rent growth in Texas. Meanwhile, Houston’s Class A properties have seen recent effective rent gains even with aggressive leasing specials, meaning effective rents are beginning to simmer.

Speaking of turning up the heat: CBRE Research concludes renters with the grit to move in the Texas heat should do so this year, because higher rents and cooler concessions are in the forecast for the ‘18 and ‘19 summers.