

## Multifamily Market Commentary – September 2015

### Millennials Flocking to Other Primary Metros

Although there are more than an estimated 500,000 new apartment rental units under construction in the U.S., construction is not evenly distributed across the country. The majority of apartment rental units underway tend to be concentrated in major metro areas like New York, Washington, D.C., and Los Angeles. There are also a number of smaller primary metros such as Austin, Dallas, Houston, Seattle, and Raleigh that have experienced a combination of increased demand and new supply, due in large part to improving multifamily fundamentals such as shifting demographics, a surge in job growth, and positive net migration.

The **Texas metros**, as well as **Seattle** and **Raleigh**, have been able to attract an above average percentage of job-seeking Millennials. As a result, these metros have anywhere from 20 percent to 25 percent of their total population concentrated in the 20-to-34-year-old cohort, which is the primary age group most likely to rent apartments. And while all of these metros are fairly well diversified in their employment bases, they have been able to also draw – and more importantly retain – top notch employers, thereby creating a haven for young, educated, well-paid workers. This has created a trifecta of solid fundamentals for the multifamily sector in each of these metros: Job growth, demographics, and rental housing demand.

#### Major Economic Drivers, Lower Renting Costs

**Austin, Dallas, Seattle**, and **Raleigh** all boast the high tech sector as one of their major economic drivers. **Houston**, on the other hand, relies more heavily on manufacturing, logistics, healthcare, and, of course, the energy sector as the fuel for its economic engine.

What all of these metros have in common is that they tend to offer well-paying jobs coupled with, in the Texas metros and Raleigh, a lower-than-average cost of renting an apartment, as illustrated in the table below – a win-win for cash-strapped Millennials.

**Population Percentage of Millennials and  
Estimated Multifamily Rents and Vacancies – Select Metros**

	Age 18-34 % of Pop.	Q1 2015 Rent Level	Q1 2015 Vacancy Rate
Austin	26.8%	\$1,050	5.50%
Dallas - Ft. Worth	23.6%	\$950	4.75%
Houston	24.1%	\$895	7.50%
Seattle	23.7%	\$1,290	4.25%
Raleigh-Durham	24.0%	\$880	6.75%
<b>National</b>	<b>23.2%</b>	<b>\$1,145</b>	<b>5.00%</b>

Source: Nielsen PopFacts, Fannie Mae Multifamily Economics and Market Research estimates

#### Houston: A More Uncertain Road Ahead

**Houston** appears to be in the midst of an economic slowdown but, more importantly, not a downturn. While the metro's economy has greatly diversified over the past two decades, it is still driven by the energy sector, specifically oil and gas. Prior to the recent slide in oil prices, Houston was in a robust expansion. The metro added more than 100,000 jobs in 2014, growing 4.4 percent annually compared to 2.0 percent nationally. That rate of growth is not likely going to be repeated this year. In fact, Houston's unemployment rate rose slightly to 4.7 percent in July 2015, but that is still well below the national average of 5.1 percent, as of August 2015.



As a result, Houston's apartment market is likely poised for a period of easing. Vacancies are now at an estimated 7.5 percent, down from an estimated 11.5 percent in 2010, but are expected to move upward due to new upcoming supply and the weaker job market. There are an estimated 20,000 apartment rental units underway, most of which are expected to come online this year – just as job growth has slowed. Indeed, Moody's Analytics is projecting job growth could be 1.9 percent this year and 1.7 percent in 2016. While the metro is not as dependent on oil as it once was, much of the exceptional recent growth in the area can be tied back to demand from the energy sector. Instead, it is likely to be the healthcare and education sectors that should help lead short-term future job growth in Houston.

### **Dallas: More High-Tech, Less Energy Reliance**

The **Dallas-Fort Worth** metro is in full-blown expansion driven by healthy fundamentals, strong net migration trends, a diversified economy, and above average job growth. The metro's job growth was an enviable 4.0 percent last year. The financial services sector is a positive presence within the metro, as well as the professional, transportation, and hospitality services sectors.

Apartment supply in the Dallas-Fort Worth metro area is expected to continue to thrive over the short term, with more than 14,000 units underway. In fact, the robust growth in new supply should not present much of an issue. The prime renter cohort is expected to expand by 9.0 percent over the next few years. The combination of a relatively young demographic, a healthy economy, and strong job growth is likely to continue to keep rental housing demand high through 2017.

### **Austin: High Tech is in the Driver's Seat**

**Austin** is nearing full employment. Jobs grew at a rate of 4.2 percent last year, well above the national rate, and unemployment remains well below the national rate. Austin is likely on track to add more than 50,000 new jobs over the next three years. Healthy job growth and economic fundamentals are being reflected in continuing strong multifamily fundamentals – for now. At an estimated 5.5 percent, multifamily vacancies are still low and concessions are virtually non-existent. However, an estimated 15,200 units are underway – quite a bit for a metro with an inventory of fewer than 200,000 multifamily units.

Exceptional job growth over the next five years is expected to continue bringing new residents – who will need housing – to Austin. In addition, Austin is home to seven colleges and universities, including the flagship University of Texas. Many local college students choose to call the metro home after graduation, giving it the largest 20-34 year-old cohort in the nation at nearly 27.0 percent compared to the national average of 23.0 percent.

Nevertheless, with nearly 13,000 units set to deliver this year alone, even with strong job growth vacancies will likely trend up. A substantial increase in supply is expected in the South and Downtown submarkets, and the expectation is that local vacancy levels will climb. However, given that Austin started 2015 with a vacancy rate at slightly more than 5.0 percent, the multifamily sector here is expected to hold steady into 2016.

### **Raleigh: No Brain Drain Here**

**Raleigh** is another metro that draws upon its local universities to attract and retain its highly educated workforce. Jobs grew at more than 3.0 percent last year, well above the national average. More importantly, it is expected that the Raleigh/Durham metro could see an additional 25,000 new jobs this year. In addition, Raleigh's population is forecasted to grow at a steady pace of more than 2.0 percent annually over the next 18 months.

The metro's good economic fundamentals have not gone unnoticed by multifamily developers. A substantial amount of new rentals – more than 8,000 units – were delivered in 2014, with another 5,500 expected to complete and come online this year. However, given the historically low vacancy rates, Raleigh's rental market conditions eased late last year, rather than softening substantially. Despite the amount of new supply expected, anticipated steady job growth is likely to keep the rental market stable over the short-term.



## Seattle: An Affordable Alternative

**Seattle** continues to be one of the better performing metros throughout the country. Since 2010, Seattle's job market has expanded by more than 7.0 percent, besting the national rate by 2.0 percent during the same timeframe. Positive demographic trends are expected to continue with an anticipated average annual population growth rate of about 1.3 percent over the next four years.

Positive job growth and a high level of positive net migration are continuing to fuel demand within the multifamily rental sector here. Even so, there is a significant amount of new supply coming online with an estimated 15,000 units underway and expected to deliver over the next 12 months.

With its high-paying jobs and unique quality of life, Seattle continues to attract new residents, especially those in the 20-34 year-old cohort. Seattle has one of the highest concentrations of high-tech employers in the nation. Major tech firms such as Google, Amazon, Microsoft, and eBay are establishing an even larger presence there. As a result, rental market fundamentals have continued to improve.

Estimated vacancies are at 4.25 percent as of first quarter 2015, significantly below its 8.0 percent cyclical peak in 2010. Rent growth was estimated at 1.0 percent last quarter and concessions were nearly non-existent, continuing the apartment market's trend of healthy growth.

Seattle remains the far more affordable alternative to other West Coast high-tech metros, such as San Francisco and San Jose. Over the next five years, Seattle's multifamily rental sector is expected to be supported by above-average positive net migration trends, elevated levels of intellectual capital, and the lack of single-family affordability in the metro.

## Apartment Demand Should Keep On Keeping On

Underlying multifamily fundamentals at a national level remain stable. While some submarkets are seeing a slowdown in rent growth and an increase in vacancy levels due to new supply, it is not expected to be long-lasting. This is because projected employment growth coupled with solid demographic trends in most metros – and especially in most of the Texas metros, Seattle, and Raleigh – are expected to keep rental household formations healthy over the next few years.

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