# Multifamily Market Commentary – November 2013
## The Lone Star State Shines Bright

With regard to local multifamily housing markets, recent data show that Texas contains some of the best performing metro areas in the country, having made it relatively unscathed through the Great Recession. Exceptional job growth, positive net migration, and healthy fundamentals have made Texas one of the fastest-growing areas in the United States today. In fact, data show that many of the state's metro areas have outperformed their previous pre-recession vacancy and rent growth levels.

### Texas Multifamily Fundamentals Are Healthy

As shown in the table below, Houston contains the largest number of multifamily rental units in Texas as estimated by CBRE Econometric Advisors at 581,000 units, followed by Dallas at 468,000. Austin and San Antonio have 182,000 and 147,000 units, respectively. El Paso is the smallest of these Texas metros, with CBRE estimating its multifamily rental inventory at 46,000 units. According to CBRE, nearly all of the Texas metros, with the primary exception of El Paso, are either near or below cyclical troughs in terms of vacancies and average rents.

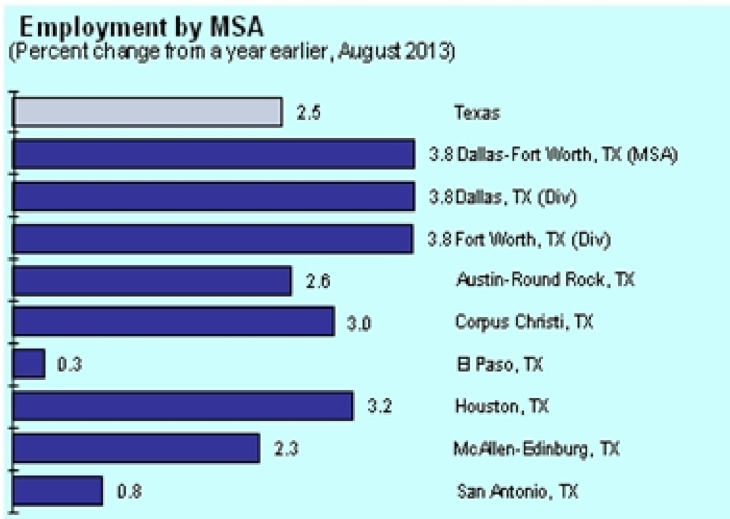
**Key Multifamily Fundamentals – Select Texas Metros**

| Estimated (Q2 2013) | Houston | Austin | Dallas | San Antonio | El Paso |
|---|---|---|---|---|---|
| Total Units (CBRE) | 581,000 | 182,000 | 468,000 | 147,000 | 46,000 |
| Units Completed since 2010 | 11,000 | 12,800 | 16,300 | 7,300 | N/A |
| Units Underway | 9,800 | 9,400 | 10,300 | 6,900 | N/A |
| Vacancy | 6.6% | 4.3% | 5.2% | 5.7% | 6.4% |
| Cyclical Trough Vacancy | 7.5% | 4.25% | 5.2% | 5.7% | 4.4% |
| Cyclical Peak Vacancy | 12.5% | 11.75% | 10.5% | 10.25% | 7.7% |
| Average Rent | $890 | $990 | $870 | $810 | $720 |
| Cyclical Trough Rent | $795 | $778 | $779 | $717 | $550 |
| Cyclical Peak Rent | $850 | $960 | $897 | $780 | $712 |
| Concessions | -1.6% | -0.9% | -1.5% | -2.2% | N/A |

*Source: CBRE Econometric Advisors, Axiometrics, Fannie Mae Multifamily Economics and Market Research*

## Texas Means Business

Texas has been actively courting businesses to relocate to the Lone Star state, with some of those firms ending up in Austin. Certain areas of the state – specifically in Austin, Dallas, and sections of Houston – have emerged as high-tech hubs offering much lower costs than their California metro counterparts. Corporations such as Apple, Visa, General Motors, Hewlett-Packard, and Lockheed Martin have established significant presences in the state, in the form of regional headquarters and/or large operations centers. As shown in the chart below, most metros have benefitted from these high-profile company expansions or relocations. El Paso is a notable exception.




*Source: IHS Global Insight*

## Texas-Sized Employment and Population Growth

According to Moody's Analytics, the forecasted average annual job growth for the major Texas metros is expected to be a substantial 3.7 percent through 2016. Much of the expected employment growth is driven by the professional/business services sector and the construction sector. A large amount of new apartment supply currently is in the planning stages in these metros, but projects underway also are keeping construction workers very busy. The booming oil industry and for-sale market also are contributing to the exceptional construction sector growth. As shown in the table above, with the exception of El Paso and San Antonio, three of the five primary Texas metros have experienced job growth at or above the national average job growth rate of 1.7 percent as of August 2013 (year-over-year).

### Key Economic Trends – Select Texas Metros

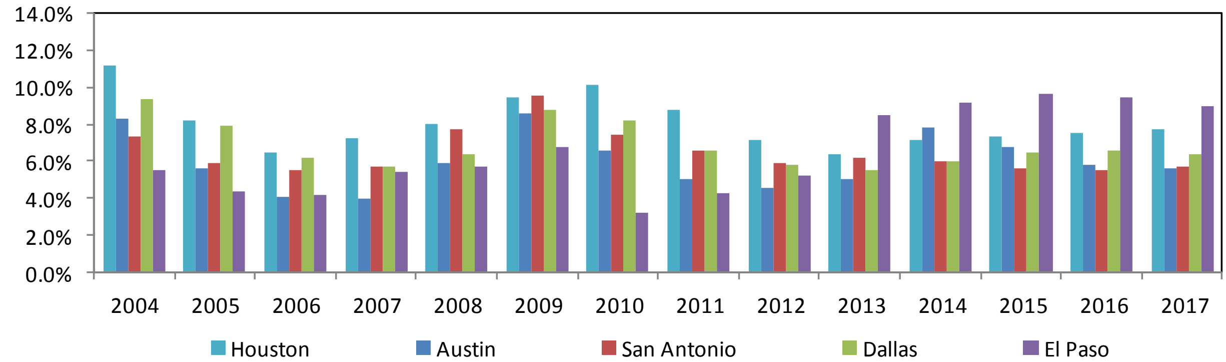
| | Houston | Austin | Dallas | San Antonio | El Paso |
|---|---|---|---|---|---|
| Population | 6,600,000 | 2,100,000 | 7,100,000 | 2,600,000 | 845,000 |
| Population Growth through 2018 | +1.6% | +2.2% | +1.6% | +1.6% | +1.6% |
| Total Employment | 3,100,000 | 1,000,000 | 3,404,000 | 1,100,000 | 343,000 |
| Average Job Growth through 2018 | +1.6% | +4.0% | +1.7% | +1.6% | +1.7% |
| Median Household Income | $54,000 | $55,000 | $54,000 | $48,000 | $37,000 |

*Source: Nielsen*

## Exceptional Growth Expected to Keep Vacancies Down

As shown in the chart below, vacancies have returned to their pre-recession levels in most Texas metros. Texas was one of the few areas that was not greatly affected by the recession and, with the exception of 2009 and 2010 where vacancies inched up a bit, vacancies have hovered around their historical rates and are projected to do so through 2017. Although record levels of new supply are expected in Houston, Dallas, and Austin, that supply should be absorbed easily due to population growth rates that are currently more than double the national average of 1.0 percent coupled with strong job growth.

**Annual Multifamily Vacancies**

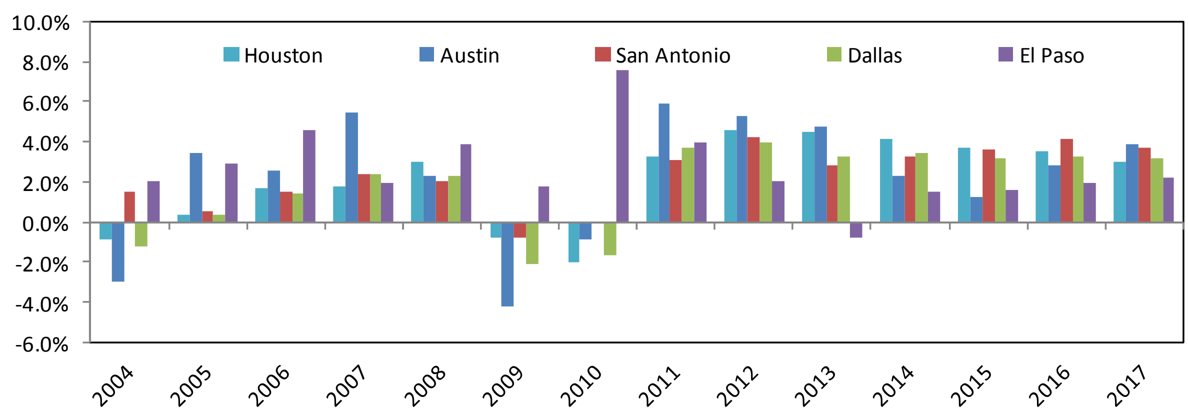



*Source: CBRE Econometric Advisors*

## Rent Growth Remains Positive

Like the rest of the country, rent growth plummeted in 2009 in most of the Texas metros. Interestingly, El Paso was the only metro that experienced positive rent growth that year. Rent growth has rebounded in many Texas metros since then, as illustrated below. This year, four of the five Texas metros – with El Paso the lone exception – will have annual growth rates of around 3.0 percent or better. According to CBRE Econometric Advisors' forecast, annual multifamily rent growth in Austin, Houston, Dallas, and San Antonio is expected to stay neck and neck through 2017. Although El Paso is expected to get back on positive footing farther out in the forecast, it is expected to trail behind the state's other four major metros over the short term.

**Annual Multifamily Rent Growth**




*Source: CBRE Econometric Advisors*

## Texas Apartment Sector Seeing a Flurry of Investments

Investors who have been priced out of primary rental metros such as New York, San Francisco, and Los Angeles are looking to the Texas metros as attractive alternatives. Investors appear drawn to Texas by the strong job growth and demographic projections. As a result, Dallas saw more than $3.2 billion in apartment property sales transaction volume in 2012 alone, according to data from Real Capital Analytics. Austin also experienced quite a number of apartment property sales, with transactions totaling $2.4 billion last year.

Houston also has been a strong performer, as investors are attracted to by the metro's robust oil and energy sectors. Last year, Houston's apartment property sales volume surpassed the $3.1 billion mark. San Antonio also had a busy year in 2012, with sales volume reaching $735 million, according to Real Capital Analytics.

## Texas Should Continue to be a Strong Performer

According to Moody's Analytics, average annual job growth in the majority of the Texas metros is expected to exceed 2.1 percent through 2016, which would outpace the national average of 1.9 percent anticipated for the same period. The multifamily sector in Austin, Dallas, Houston and San Antonio is expected to continue performing well through the forecast, backed by exceptional population growth rates, strong in-migration trends, diverse job markets, and extraordinary job growth numbers.

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