

Texas Quarterly Apartment Report



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TEXAS A&M UNIVERSITY

Texas Real Estate
Research Center 

TECHNICAL REPORT
2 2 4 2
THIRD QUARTER 2021

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Texas Quarterly Apartment Report: 3rd Quarter 2021

DALLAS FORT WORTH

	OCCUPANCY RATES	ASKING RENTS
OVERALL	94.2% ▲	14.1% ▲
CLASS A	93.2% ▲	17.3% ▲

AUSTIN

	OCCUPANCY RATES	ASKING RENTS
OVERALL	93.8% ▲	19.9% ▲
CLASS A	93.8% ▲	23.3% ▲

SAN ANTONIO

	OCCUPANCY RATES	ASKING RENTS
OVERALL	93.4% ▲	12.0% ▲
CLASS A	93.6% =	17.3% ▲

HOUSTON

	OCCUPANCY RATES	ASKING RENTS
OVERALL	92.9% ▲	9.5% ▲
CLASS A	92.1% ▲	13.4% ▲



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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. It uses 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 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.

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Texas Economic Overview

Economic activity within Texas improved during the third quarter, and strong growth is expected for the remainder of the year. Increased hiring in September resulted in solid third-quarter payroll expansion, although joblessness in the Lone Star State was still higher than the national average. Moreover, headline wage numbers accelerated in real terms despite rising inflation. Oil industry activity accelerated as oil prices increased, and the global economic recovery continued. Meanwhile, retail sales surpassed a record-breaking \$50 billion, but real commodity exports decelerated during the quarter. Containment of the pandemic is vital as additional waves of infection, mainly from the Omicron variant, can weigh on consumer behavior and slow the return to pre-pandemic conditions.

Increasing COVID-19 vaccination rates have contributed to the reopening of the economy. Based on the most current data from the Texas Department of State Health Services, 61.3 percent of the state's population 12 years and older is fully vaccinated¹. The Delta variant appears to have reached its extreme point as the numbers of COVID-19 cases and hospitalizations continue to fall after peaking at the end of August. The announcement of a COVID-19 pill that reduces the risk of hospitalization and dying has considerably reduced the uncertainty on halting the pandemic, improving future economic expectations. Still, the National Institute of Allergy and Infectious Diseases is concerned about a possible surge during the winter months as temperatures drop and the appearance of the Omicron variant increases worries of future outbreaks. For additional commentary and statistics, see the Texas Real Estate Research Center's *Outlook for the Texas Economy* at <https://assets.recenter.tamu.edu/Documents/Articles/2046.pdf>.

The Residential Construction Cycle (Coincident) Index, which measures current construction levels, decreased nationally but increased slightly for Texas as improvements in industry wages and employment outweighed depressed construction values. Construction activity is expected to slow in coming months as indicated by the Texas Residential Construction Leading Index (RCLI), which fell amid lower weighted building permits and housing starts, while the ten-year real Treasury bill yield decreased (Figure 1). Austin and Houston's leading index reflected statewide fluctuations, while the trend decreased in the former and increased slightly in the latter. Dallas-Fort Worth (DFW) and San Antonio's indexes decreased, trending downward despite issuing more building permits and elevating residential starts (Figure 2).

Overall apartment market trends looked strong through September as the majority of the Metropolitan Statistical Areas (MSAs) registered year-over-year positive changes in both occupancy and rents. Only San Angelo, El Paso, and Lubbock registered negative annual changes in occupancy rates, while Midland and Odessa continued to register negative annual

¹ Data up to September 27, 2021. Source: Texas Department of Health Services

rent growth. This caused the Texas average to register positive changes in both occupancy and rent (Figure 3).

Texas nonfarm employment added 95,800 jobs in September, rising 6.7 percent on seasonally adjusted annual rate. Based on the state's solid employment performance, the Dallas Fed forecasts annual employment to increase 5.1 percent in 2021, reaching 13 million workers by December. Hiring in Houston surged during the third quarter, recovering 51,400 jobs compared with the 23,500 positions added during the second quarter. Despite registering the highest number of job gains of the four major MSAs, Houston payrolls remained 3.7 percent below pre-pandemic levels. Austin added 34,000 employees, more than doubling employment gains from the second quarter as the metro benefited from its substantial high-tech sector, which can socially distance and has prospered during the pandemic. Employment increased precipitously in Fort Worth, gaining 30,700 positions after increasing payrolls by just 400 workers in the previous three months. Only hiring in Dallas and San Antonio slowed quarter over quarter, but they still registered quarterly increases of 36,000 and 9,300 workers, respectively. Payroll expansions across the major metros were largely concentrated in the professional/business services and education/health services industries, while goods-producing employment mainly elevated due to rising construction jobs.

Texas' goods-producing sector gained 26,500 jobs during the third quarter after losing 16,700 positions in the previous quarter. Amid increasing oil prices, energy-related employment rose by 7,800 jobs but remained around 16 percent below pre-pandemic levels. Recovering global economic conditions supported the state's manufacturing industry, which added 12,000 employees, while durable-goods payrolls recorded a 6,100-job gain. Construction payrolls expanded this quarter, adding 6,700 jobs after losing jobs in four consecutive months from April to July.

Texas' service-providing sector recovered nearly all jobs lost due to the pandemic, adding 203,400 workers during the third quarter. Leisure/hospitality recouped 28,400 jobs, but arts/entertainment/recreation payrolls remained almost 15 percent below pre-pandemic levels. On the other hand, the transportation/warehousing/utilities industry added 31,400 positions, surpassing pre-pandemic employment by 2.6 percent.

With monetary policy possibly normalizing, starting with the Federal Reserve Bank's tapering of bond purchases, economic growth forecasts for the coming years point to a slow return to the long-run structural trend as the initial and strongest stage of recovery likely reached its peak. It's becoming clearer that inflation pressures will be permanent versus temporary. The ten-year U.S. Treasury bond yield decreased to 1.5 percent during 3Q2021 but was down from pre-pandemic levels of 1.7 percent during 4Q2019. The spread between apartment capitalization rates and the ten-year Treasury during 3Q2021, reverting the downward trend observed during the previous three quarters. The upsurge in the spread indicated more risk and profitability in apartment real estate (Figure 4). The increase in the spread was because of a decrease in the

yield for the ten-year Treasury bill due to a lower expected real return as a consequence of lower anticipated future potential growth for the U.S. economy.

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 increased in 3Q2021. 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 5.6 percent, still higher than the national rate of 4.8 percent. The size of the state's labor force expanded while the labor force participation rate reached 62.4 percent. Texas' major metros reported lower unemployment rates than the statewide average, except in Houston where joblessness fell to 5.8 percent. Unemployment inched down to 5 percent in Fort Worth and fell in San Antonio and Dallas to 4.9 and 4.8 percent, respectively. Joblessness remained lowest in Austin, where unemployment slid to 3.8 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 expected, the increase in the unemployment rate in 2Q2020 pushed up vacancy rates in the major metros. Declining unemployment rates have alleviated some of that vacancy pressures (Figures 5-8). The eviction moratorium and the Federal stimulus that included transfer payments through stimulus checks and renter/landlord assistance has held down vacancy rates. Also, increasing vaccination rates that have allowed for the reopening of the economy, accompanied by strong job growth, has contributed to decreasing vacancy rates. Going forward, even with the U.S. Supreme Court lifting the ban on eviction on Aug. 26, 2021, vacancy rates should continue to fall.

According to the U.S. Census' Household Pulse Survey, 22 percent of Texas renter-occupied households were behind on their payments during September, higher than the national rate of 15 percent (Table 1). Renter-households in DFW registered the same value observed at the national level, contrasting with the Houston MSA value of 23 percent, a higher value than what was observed at the national and state levels. The results are higher for Texas and Houston compared with the June pulse survey numbers.

On the respondents' ability to pay next month's rent, 31 percent of renter households in Texas have no confidence or only slight confidence in making their rent payment next month. This is higher than the 24 percent observed at the U.S. level (Table 2). The DFW MSA recorded a lower value of 21 percent, compared with Houston's 32 percent. With the exception of Houston, where renters' ability to pay next month's rent deteriorated, overall conditions remained unchanged compared with the June pulse survey results.

When considering Texas respondents who were not current on their rental payments, 58 percent of these households stated the likelihood of eviction to be either very likely or somewhat likely in the next two months. This is compared with 42 percent nationwide (Table 3). That same metric, however, was lower in DFW and Houston, registering 24 and 39 percent,

respectively. Both the DFW and Houston multifamily rental market outlook improved due to the decrease in the number of households that could be evicted. Continued household stability is essential to Texas' economic recovery.

ENHANCED MULTIFAMILY OUTLOOK FROM COVID-19 IMPACT

- Various factors have 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 until they re-enter the labor force.
It also prevented businesses from closing permanently.
 - Increasing vaccination rates have contributed to the reopening of the economy, especially benefiting service industries that cannot socially distance.
 - The lack of single-family homes available for sale, especially those priced below \$300,000, has caused strong home price growth, assisting the apartment market.
Some households may have found themselves priced out of the market and will continue to be renters.
 - Economic growth, demographic trends (such as young population and migration from out of state), and a limited supply of single-family homes available for sale combined with strong price growth will help drive Texas apartment demand in the remainder of 2021 and should continue during 2022.
 - Evictions should continue to increase after the U.S. Supreme Court lifted the ban on eviction on Aug. 26, 2021.
 - Evictions have been kept low due to government policies, but they are no longer seen as a catastrophic issue facing the apartment market.
 - Recovery in the labor market and government transfers benefited households that in the past were temporarily unable to make rent payments on time.
 - Unfortunately, some households will probably be forced to change their current living arrangements, but this would not represent the majority of the rental market.
 - Eviction increases are expected to be concentrated in type Class C and D properties and would most likely affect small property owners.
 - The outlook has changed considerably from catastrophic at the onset of the pandemic to a positive outlook.
 - The appearance of new variants like Delta and Omicron have 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. Those are shown in Table 4 and Table 5.

Table 1. Last Month's Rent Payment Status

Region	Occupied Without Rent	Household Currently Caught Up on Rent Payments		
		Yes	No	Did not report
United States	7%	78%	15%	0%
Texas	5%	72%	22%	0%
Dallas-Fort Worth	6%	78%	15%	1%
Houston-The Woodlands-Sugar Land	3%	74%	23%	0%

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, Sept. 29–Oct. 11

Table 2. 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, Sept. 29–Oct. 11

Table 3. 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, Sept. 29–Oct. 21

Table 4. 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 5. 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

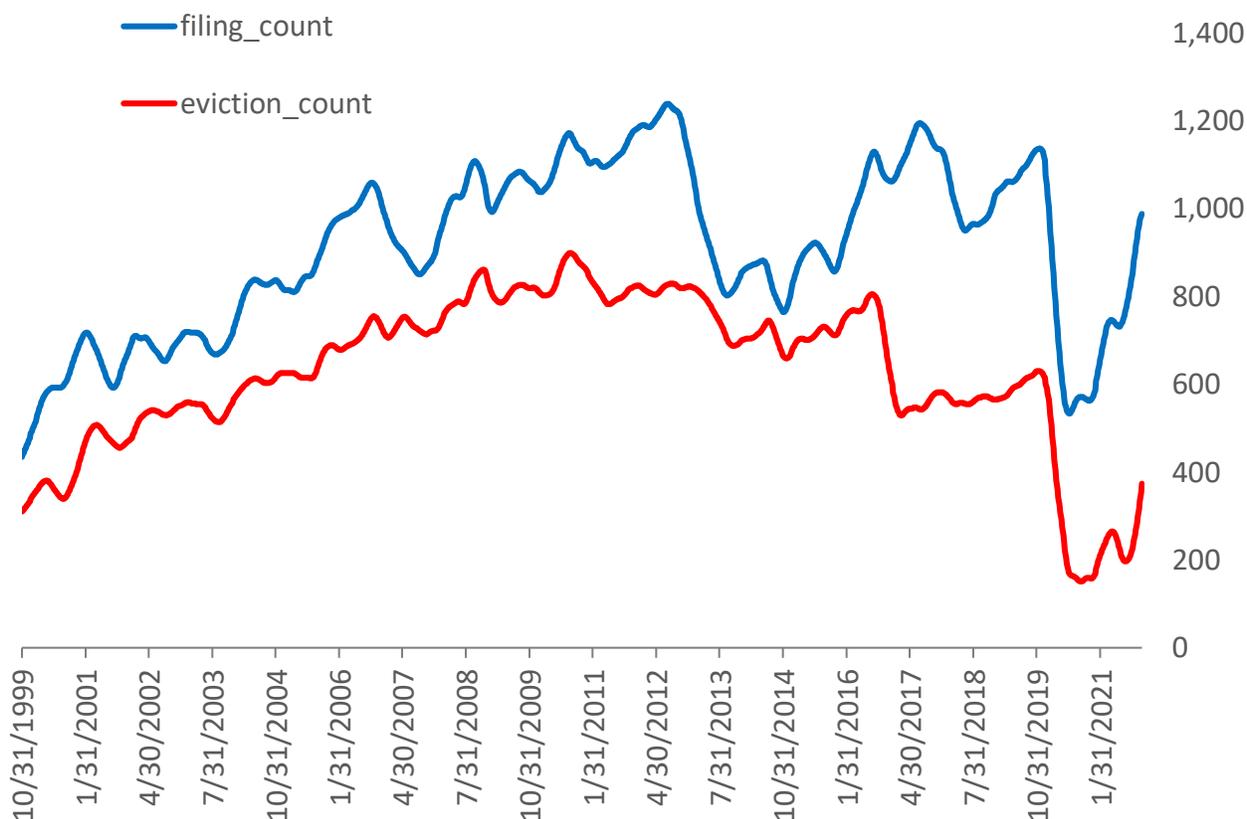
Note: Annual numbers are the four-quarter average of the seasonally adjusted data. The rent growth is nominal and estimated from the previous year's average.

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

Harris County Evictions and Judgements Rise

The March 2020 eviction moratorium pushed down the number of eviction judgments in favor of the landlord and eviction filings by the landlords in Harris County to unprecedented low levels not observed even during normal business cycle conditions (see figure). After filings reached a trough at the end of June 2020 and a low of eviction judgements at the end of September 2020, numbers began increasing quickly during 2021. The increase in evictions judgements started a year before the U.S. Supreme Court lifted the ban on eviction on Aug. 26, 2021, but they accelerated after the ban was lifted. Eviction judgements are probably further behind than they ordinarily would be due to the backlog facing the Harris County court system. They're expected to increase going forward.

Weekly Harris County Eviction Judgements and Filings
(Number)



Note: Trend-cycle adjusted. Shaded areas refer to U.S. recessions. Filing count is estimated based on the date of initial case filing. Eviction count is based on date of judgement handed out.

Sources: Harris County JP Court and Texas Real Estate Research Center at Texas A&M University

Overall Apartment Sector

Austin (Figures 9 – 12)

The actual vacancy rate in the overall Austin apartment market for 3Q2021 fell to 6.2 percent. Effective rent increased, with effective rent per unit was up 19.9 percent over 3Q2020. This represents more than just a recovery from a pandemic-burdened economy, as effective rent in Austin currently sits at an all-time high.

According to data from Real Page Inc., 96.9 percent of multifamily renters made full or partial rent payments in the Austin-Round Rock MSA, down from 97.5 percent in 2Q2021. Despite this figure falling, Austin still has the highest proportion of rent payments of all major Texas MSAs and is still higher than both the state and national averages. In fact, the country, state, and all four MSA averages fell this quarter with Austin-Round Rock falling the least.

Net absorption fell slightly from 2Q2021, representing a three-fold improvement over net absorption in 3Q2020. Meanwhile, units delivered grew this quarter, promising continued supply in a booming housing market. In addition, even though units under construction and construction values fell, they remained high.

In national quarterly rankings of 5+ unit multifamily housing building permits submitted, Austin dropped to 7th, the first time since 4Q2019 this MSA has not been ranked in the top five. About three quarters of the number of permits submitted in 2Q2021 were submitted in 3Q2021.

Rising occupancy and steady net absorption signal consistent demand for multifamily housing in Austin-Round Rock. Units delivered and under construction remaining steady explain that supply isn't likely to decline anytime soon. However, as long as net absorption outpaces deliveries, driving vacancy lower, effective rents are likely to rise further. This is especially true as more corporations are moving to the area and bringing employees with them.

Dallas-Fort Worth-Arlington (Figures 13 – 16)

Actual vacancy in the overall Dallas-Fort Worth-Arlington apartment market fell from 2Q2021 to 3Q2021. Vacancy was at 5.8 percent, 2.7 percent lower than the natural vacancy rate and the lowest recorded since 2001. Effective rent reached an all-time high, and the yearly growth in effective rent was 14.1 percent.

Net absorption continued to grow, indicating steady demand. Units delivered significantly decreased from last quarter and is 50 percent lower than a year ago. This is likely the effect of paused building projects seen in the early days of the COVID-19 pandemic catching up with the housing market. Units under construction experienced no significant change while construction values had large declines after a burst of growth in 2Q2021. Construction start values remain much higher than they were in 3Q2020 or even in 1Q2021.

U.S. Census Bureau data has ranked DFW third in terms of 5+ unit multifamily housing building permits submitted, marking the MSA's third straight quarter in the top five ranking and its second consecutive time third. Permits submitted in DFW decreased from 2Q2021 but so did the sum of permits submitted in the quarter's top five MSAs.

Based on RealPage Inc. data, 95.2 percent of multifamily renters in the Dallas-Plano-Irving area and 95.3 percent of multifamily renters in the Fort Worth-Arlington area made full or partial rental payments in 2Q2021. These represent declines of 0.77 and 1.27 percent, respectively, or about 1 percent for the MSA on the whole. Dallas-Fort Worth rental payments are still proportionally higher than the national and state averages, but the MSA trails Austin and San Antonio in terms of rental payments.

Houston (Figures 17 – 20)

Houston's vacancy rate decreased for the third straight quarter to 7.1 percent. It remains below the 9.2 percent natural vacancy rate. Effective rent per unit was level while annual effective rent growth per unit improved to 9.5 percent, signaling continued recovery in the Houston market.

As with every other MSA, Houston's proportion of full or partial rental payments as collected by RealPage Inc. fell to 93.6 percent for the quarter. This is a 1.77 percent decrease from 2Q2021, the greatest of any of Texas' four major MSAs. Additionally, Houston remains the MSA with the lowest proportion of payments in Texas, dropping below the national average.

In the Census Bureau's tally of 5+ unit multifamily housing permits, Houston ranked second overall. This is the first time in 2021 that Houston has reached the top five. Net absorption posted a drastic decline. Given the metro's historic high in 2Q2021, this is not necessarily indicative of a downturn. Net absorption still remains at the second highest level recorded since 2001. Units delivered and construction start values both continued their respective declines. Units delivered was the lowest it's been since 3Q2019, signaling this slump is likely similar to the one in DFW, resulting from the pausing of building projects last year. Construction start values were the lowest since 4Q2017.

San Antonio (Figures 21 – 24)

Vacancy in San Antonio continued to fall and now sits at 6.6 percent, the lowest vacancy rate in this metro since 4Q2000. This remains well below the natural vacancy rate of 8.5 percent. RealPage Inc. reports that 95.3 percent of renters made payments in the San Antonio market, a decrease of 0.63 percent from 2Q2021. This is the second lowest decrease among the four major MSAs. San Antonio is now the second highest rent paying Texas MSA, but it is behind the Fort Worth-Arlington division if DFW is split up.

Yearly effective rent growth was 12 percent, the highest recorded since 2001. This improvement over the decline in effective rents seen in 3Q2020 points to a market that has not only recovered from the pandemic-inflicted recession but actually exceeded pre-pandemic measures. Effective rents are at their highest level since the Great Recession.

Net absorption shrank following record highs in 2Q2021 but is still well above net absorption from 1Q2021. Units under construction declined slightly as construction start values grew from the poor showing in 2Q2021. The index is now comparable to its average from 2010 to 2019. Construction starts may begin to rise as, according to Census data, the San Antonio-New Braunfels MSA improved from 33rd to 22nd in national rankings of 5+ family unit building permits submitted over the quarter. More than twice as many permits were submitted in 3Q2021 than in 2Q2021.

After a strong second quarter, the San Antonio market looks to continue its growth. Given the outlook for building, this trend is likely to be sustained for some time.

*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. It has remained below pre-pandemic levels since the beginning of 2021. Now at 6.2 percent, the vacancy rate has shrunk by more than half since 2Q2020 and is 2.8 percent below the natural vacancy rate of 9 percent. In line with overall data for Austin, effective rents have presented a strong growth trend for Class A apartments this year. They are the highest they've been in nearly 20 years and are 23.3 percent higher than last year. It remains the city with the largest effective rent growth rate among the four MSAs.

While the construction starts values index was at a record high in 2Q2021, it lowered in 3Q2021 but was still higher than the 1Q2021 value. Units delivered stayed constant from 2Q2021, representing 14 percent growth over 3Q2020. Net absorption fell from 2Q2021 but has risen by 35.8 percent from 3Q2020. High construction starts indicate continued investor confidence in Austin's future housing demand. This confidence is supported by vacancy and effective rent trends.

Dallas-Fort Worth (Figures 29 – 32)

Actual vacancy in the DFW Class A apartment market continued its decline through 3Q2021, now at 6.8 percent. This is below the natural vacancy rate of 9.1 percent. A large rise in effective rents accompanied this increase in occupancy, with annual effective rent growth at 17.3 percent, the highest growth since 2001. Effective rents are the highest since 1Q2006.

Units under construction continued falling since 1Q2020. The yearly change represents a decline of 48.5 percent. Units delivered fell precipitously, both by several thousand units from 2Q2021 and by 83.6 percent from 3Q2020. Net absorption also fell over the quarter but rose by 36.9 percent over the year. Construction starts values fell somewhat from 2Q2021 but still remain higher than they were in 1Q2021. The decline in deliveries is likely attributable to paused construction projects in 2020 and the rise in effective rents. These factors, coupled with the slowing of net absorption, may signal that apartment demand in Dallas-Fort Worth Class A markets is slowing following the boom seen across Texas earlier in 2021.

Houston (Figures 33 – 36)

Houston's Class A apartment vacancy continued to decline from its high in 4Q2020. It is now at 7.9 percent, below the natural vacancy rate of 9.7 percent. Effective rents are the highest they've been since 2Q2018. Year-over-year effective rent growth totaled 13.4 percent, the highest growth rate since 2001 for Houston.

Under-construction units declined this quarter, as they did in all MSAs, falling by 36.7 percent from 3Q2020. Net absorption fell from 2Q2021 but increased by 19.6 percent from 3Q2020. Units delivered fell by more than one fifth from 2Q2021 and by 66.9 percent for the year. The lowered construction values suggest real estate investors see a potential decrease in future demand, although oil prices rising throughout the year might suggest otherwise.

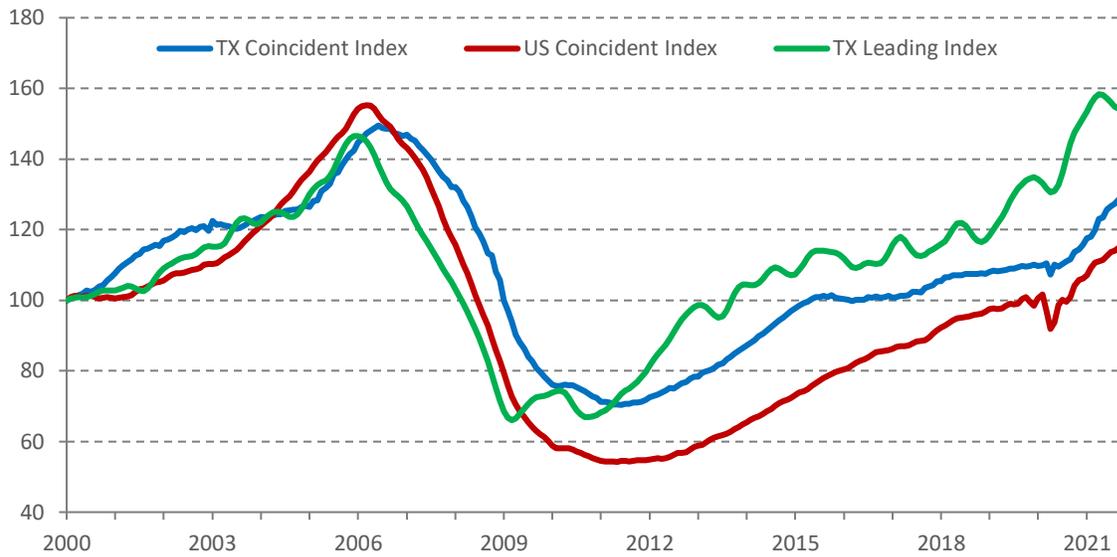
San Antonio (Figures 37 – 40)

San Antonio's Class A apartment market vacancy rate was 6.4 percent in 3Q2021, roughly equal to last quarter. This is well below the natural vacancy rate of 10 percent for Class A apartments in the MSA. Effective rent growth per unit from 3Q2020 is the lowest of Texas' four major MSAs despite a substantial rise of 17.7 percent. At record-high rents per unit, this MSA's Class A market continues to show growth.

Net absorption declined slightly from 2Q2021 even as units delivered skyrocketed from the past three quarters, accounting for a 312 percent increase over 2Q2021. Under-construction units dropped by 21.2 percent, reaching a record low. For the first time this year, more new units were delivered than new units being occupied. Despite what seems to be a levelling-off in demand, construction starts climbed to the highest they've been in 2021.

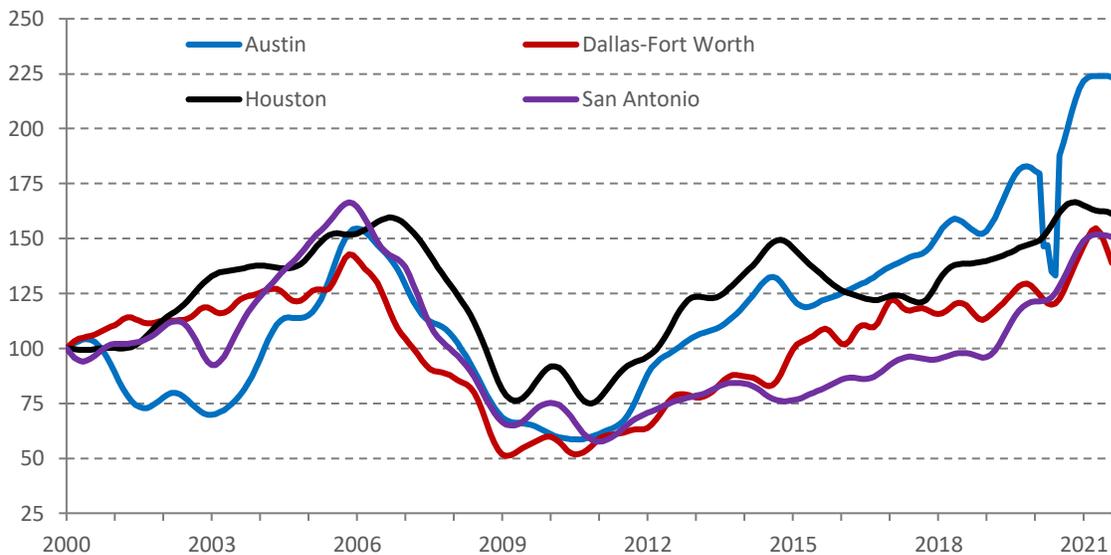
Figures

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



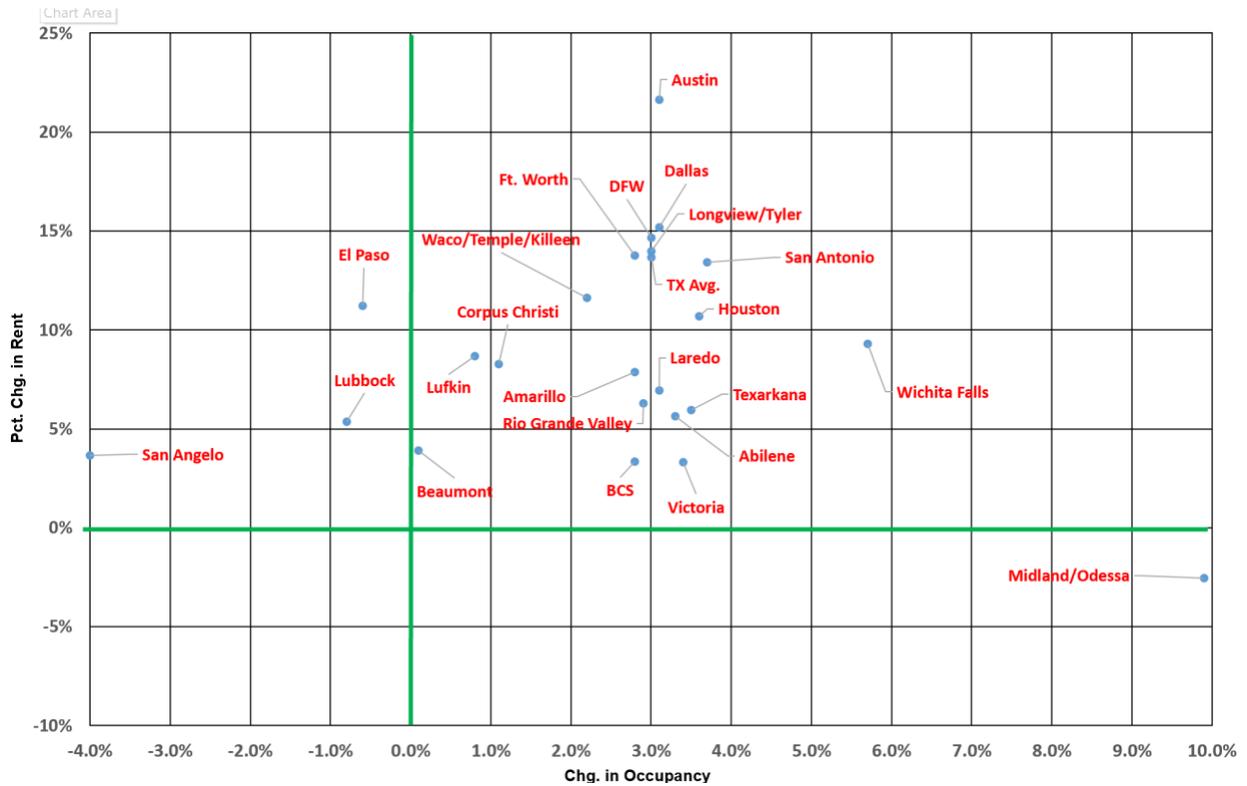
Source: Texas Real Estate Research Center at Texas A&M University

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



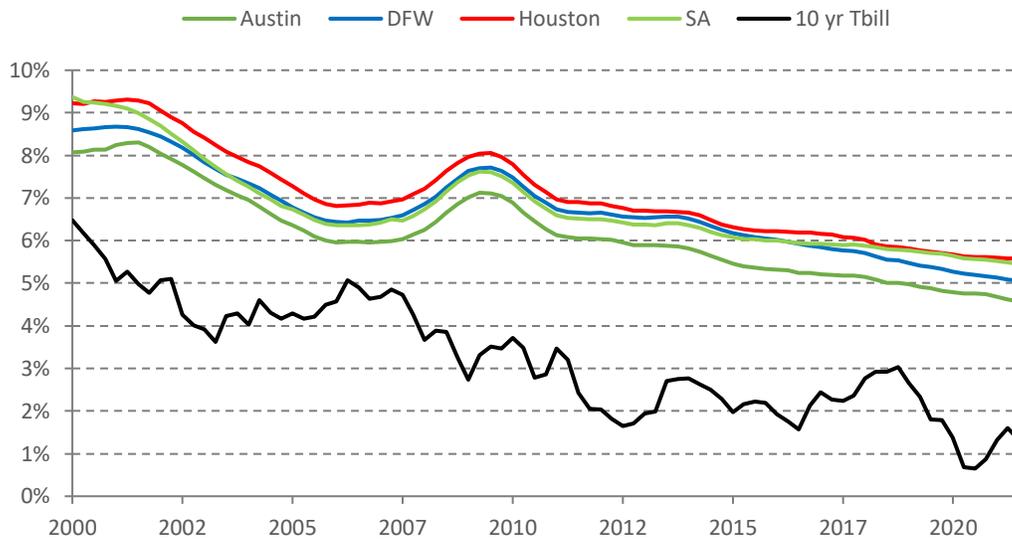
Source: Texas Real Estate Research Center at Texas A&M University

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



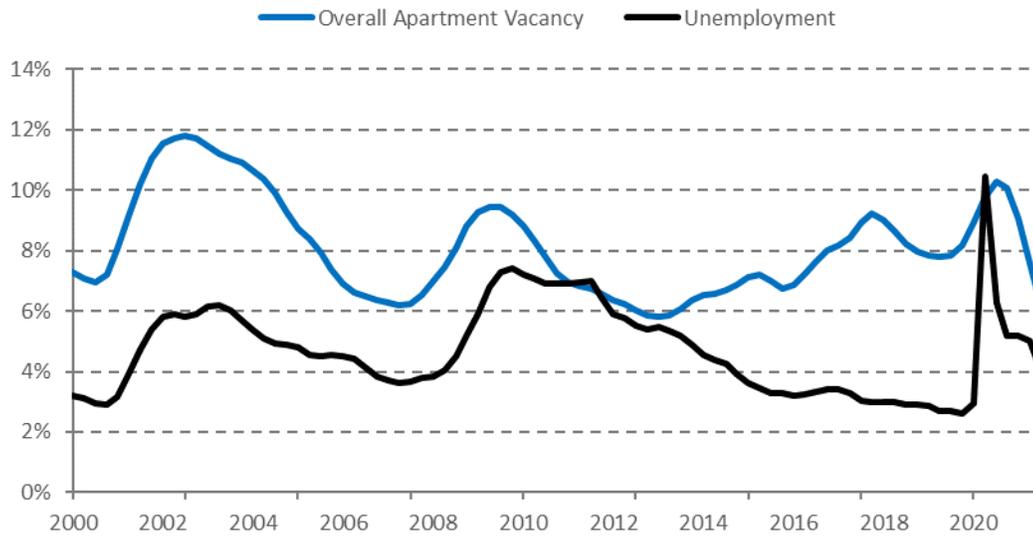
Sources: ALN Apartment Data and Texas Real Estate Research Center at Texas A&M University

Figure 4. Capitalization Rates v. Ten-year Treasury Bills



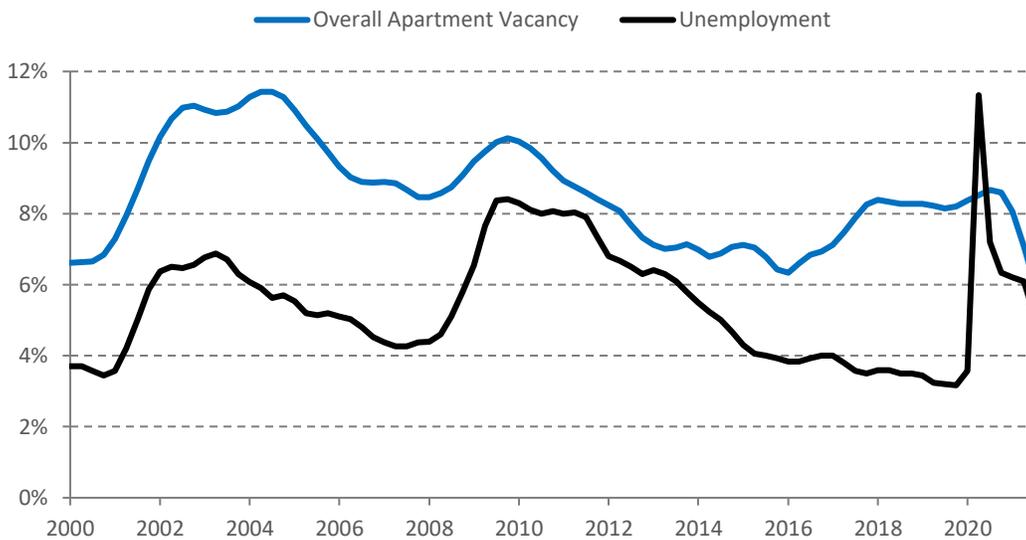
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 5. Austin Apartment Vacancy Rates and Unemployment (SA and TC)*



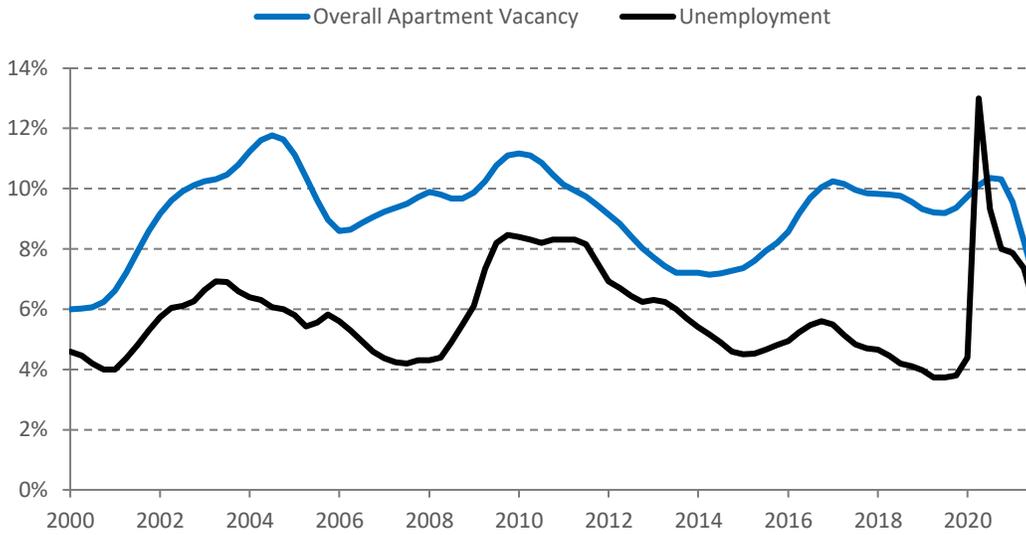
*Note: Vacancy rates seasonally adjusted and trend cycled, unemployment seasonally adjusted.
Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

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



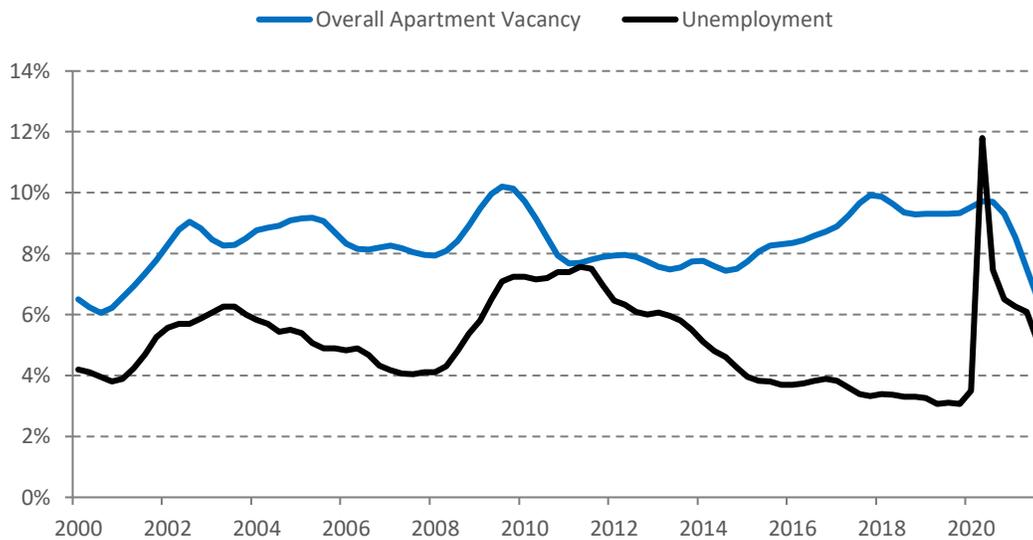
*Note: Vacancy rates seasonally adjusted and trend cycled, unemployment seasonally adjusted.
Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

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, and 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
▲ 93.8%

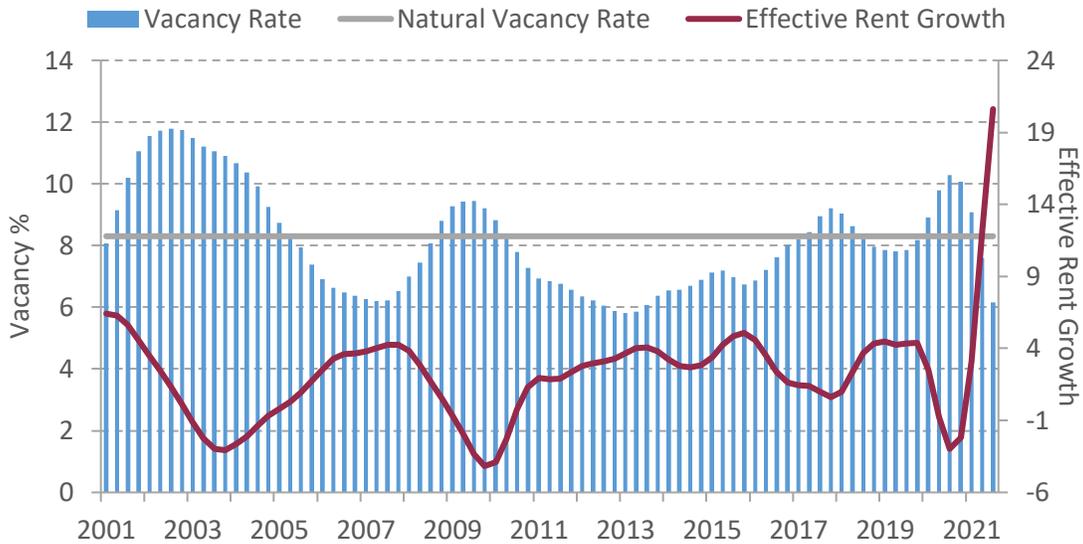
EFFECTIVE RENT GROWTH (PER UNIT)
▲ 19.9%

NET ABSORPTION (UNITS)
▼ 6,728

CONSTRUCTION STARTS
▼

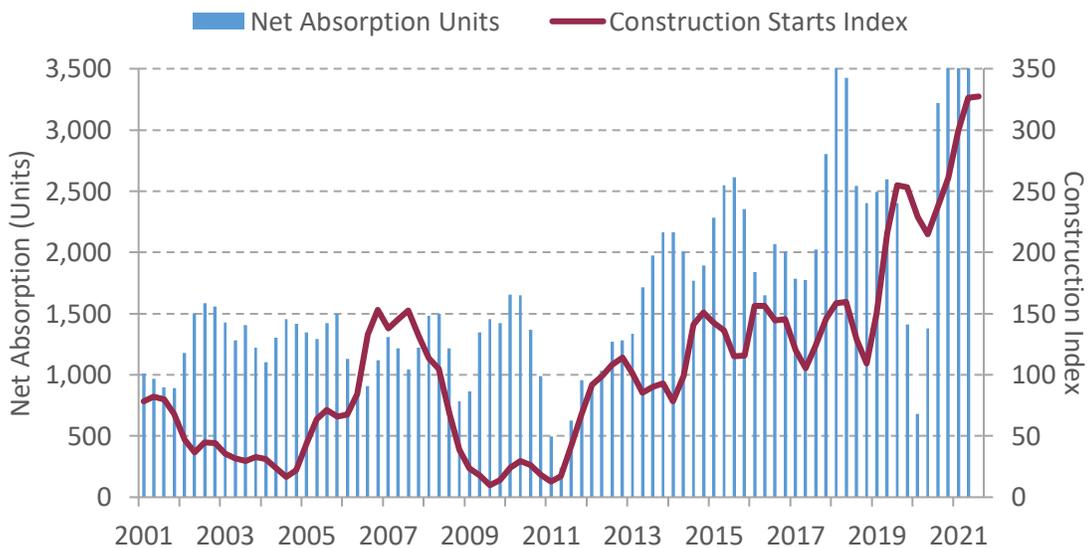
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



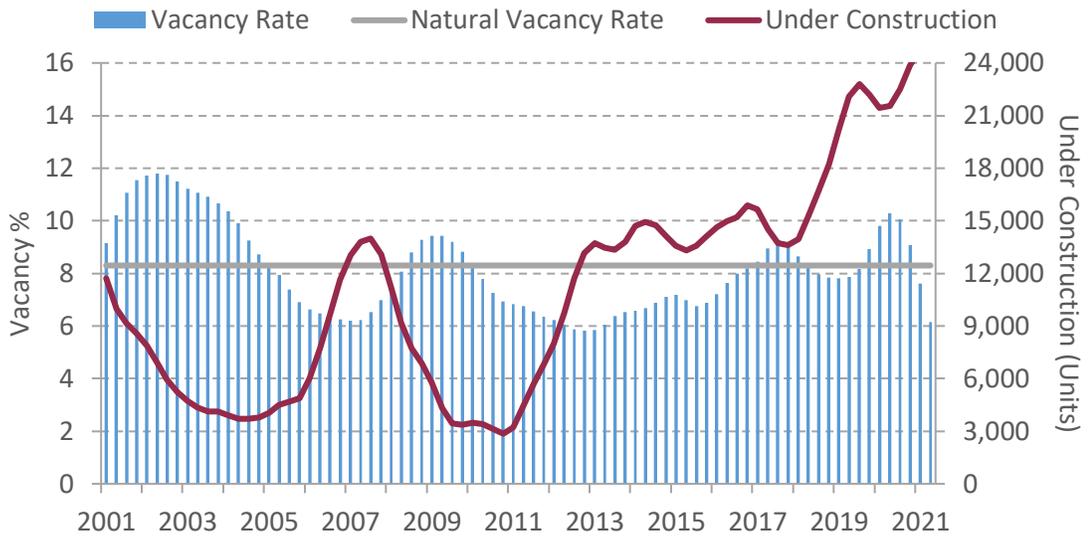
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



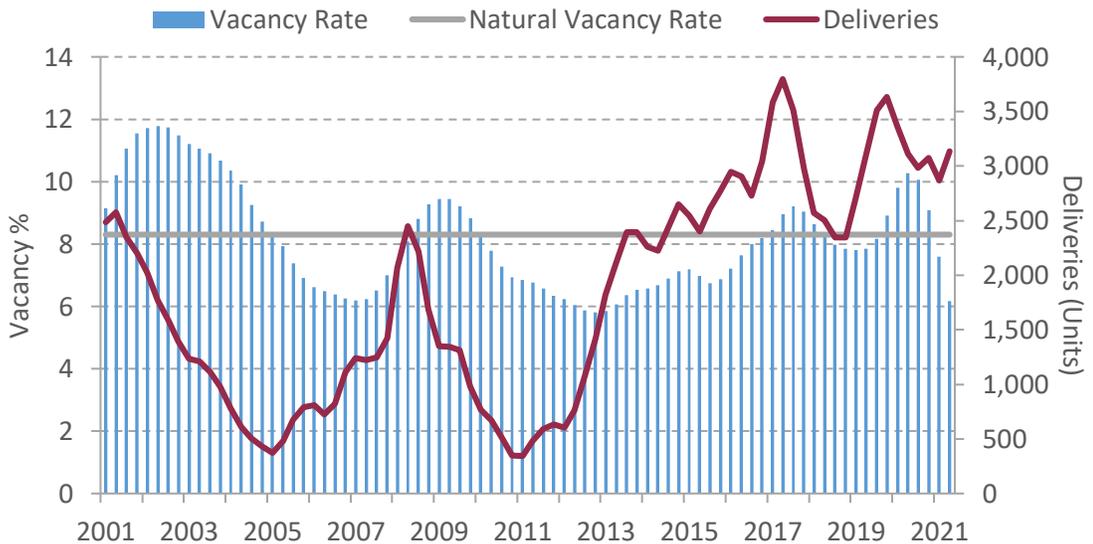
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

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
▲ 94.2%

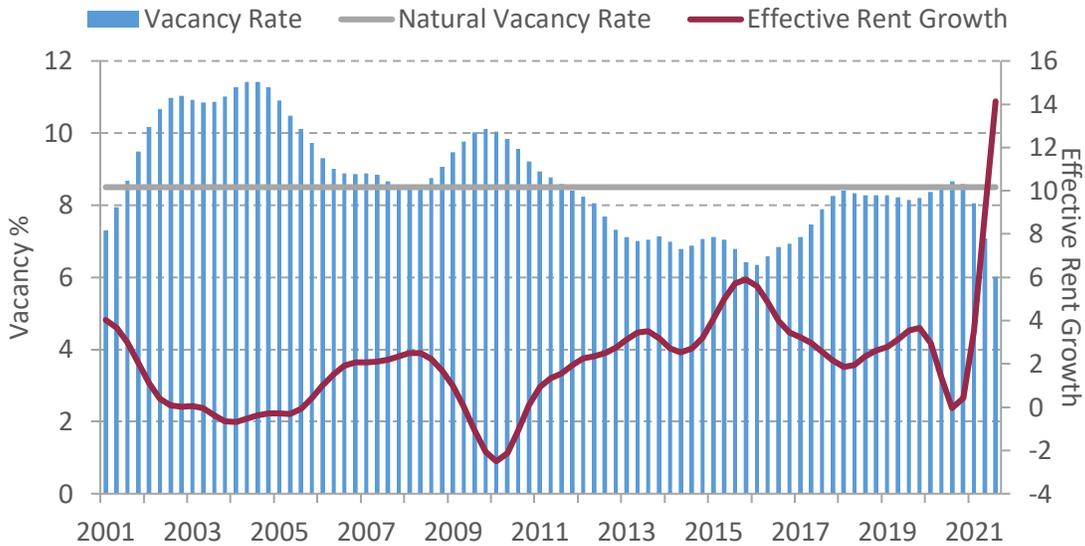
EFFECTIVE RENT GROWTH (PER UNIT)
▲ 14.1%

NET ABSORPTION (UNITS)
▲ 15,673

CONSTRUCTION STARTS
▼

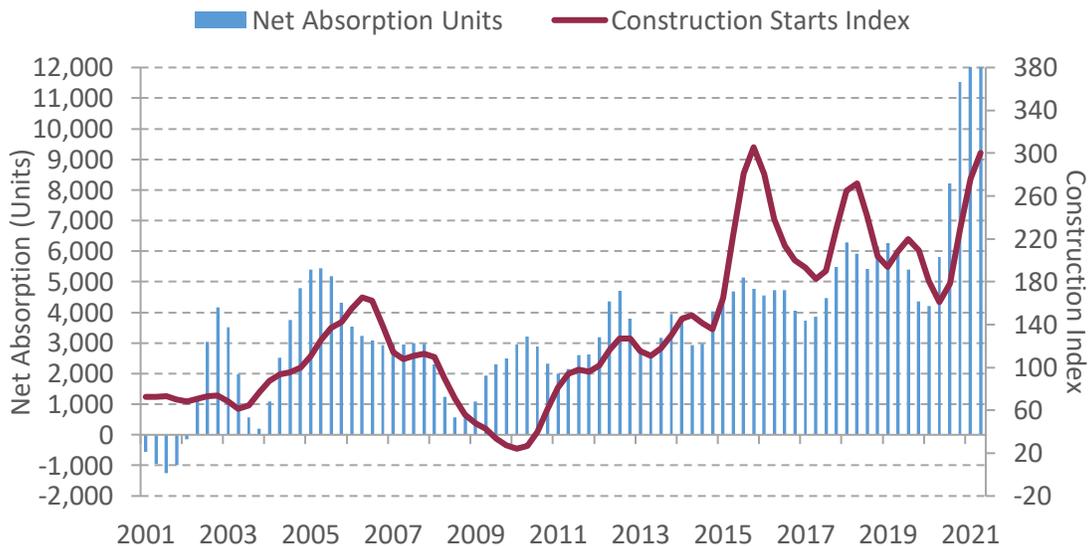
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



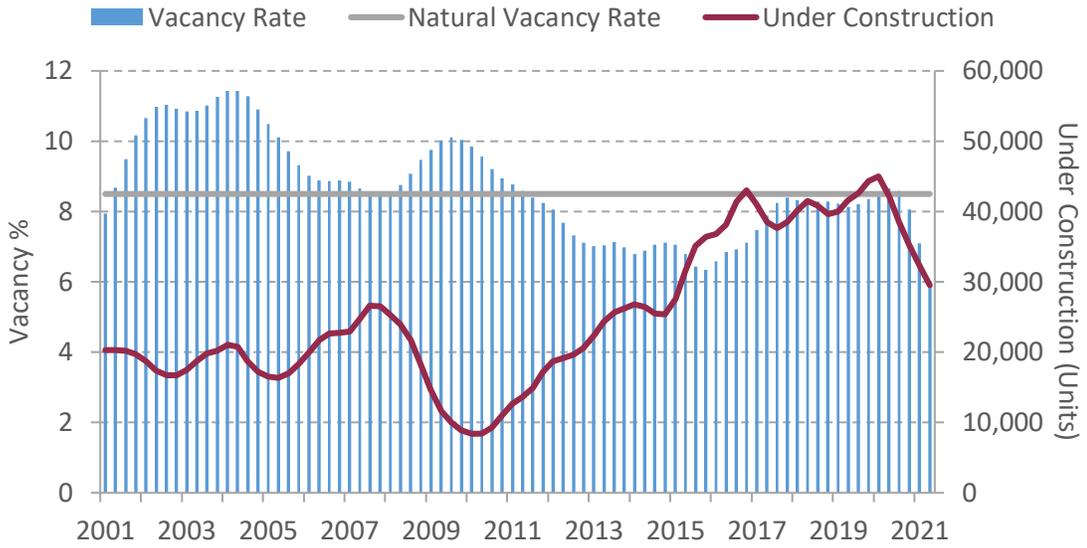
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



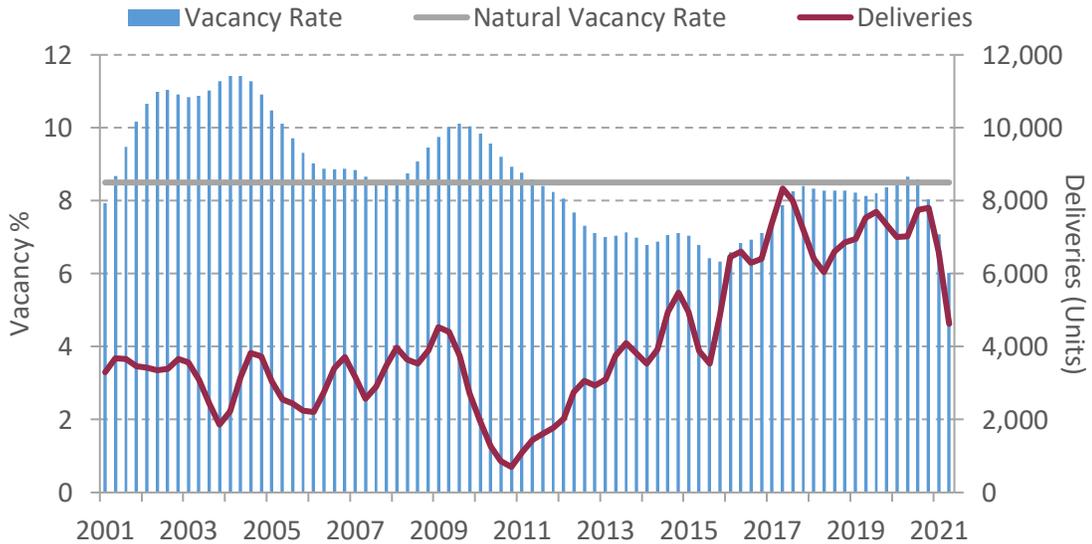
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

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
▲ 92.9%

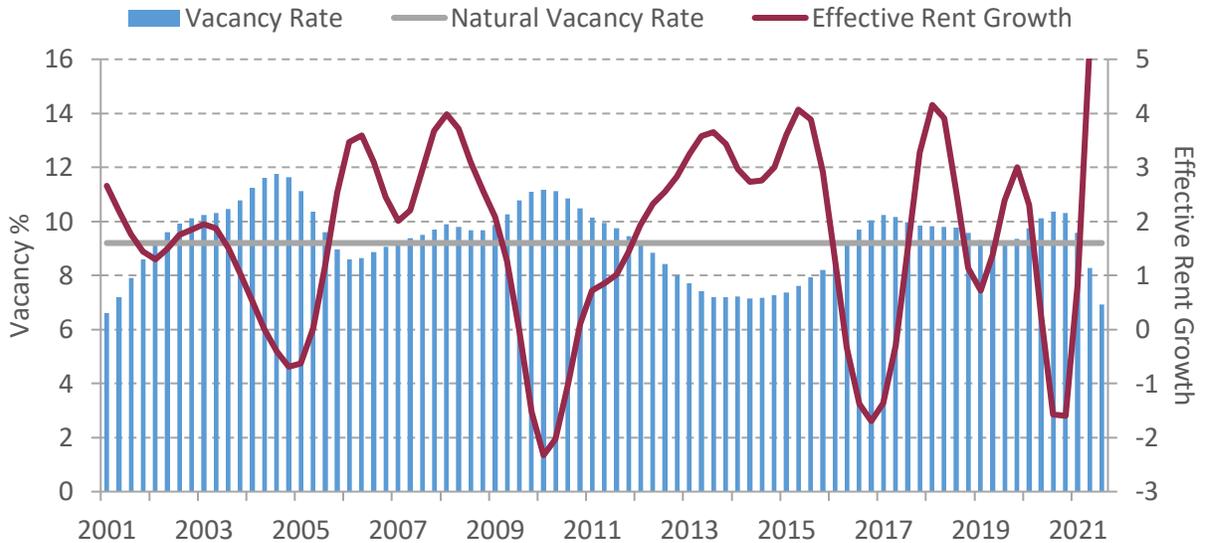
EFFECTIVE RENT GROWTH (PER UNIT)
▲ 9.5%

NET ABSORPTION (UNITS)
▼ 9,543

CONSTRUCTION STARTS
▼

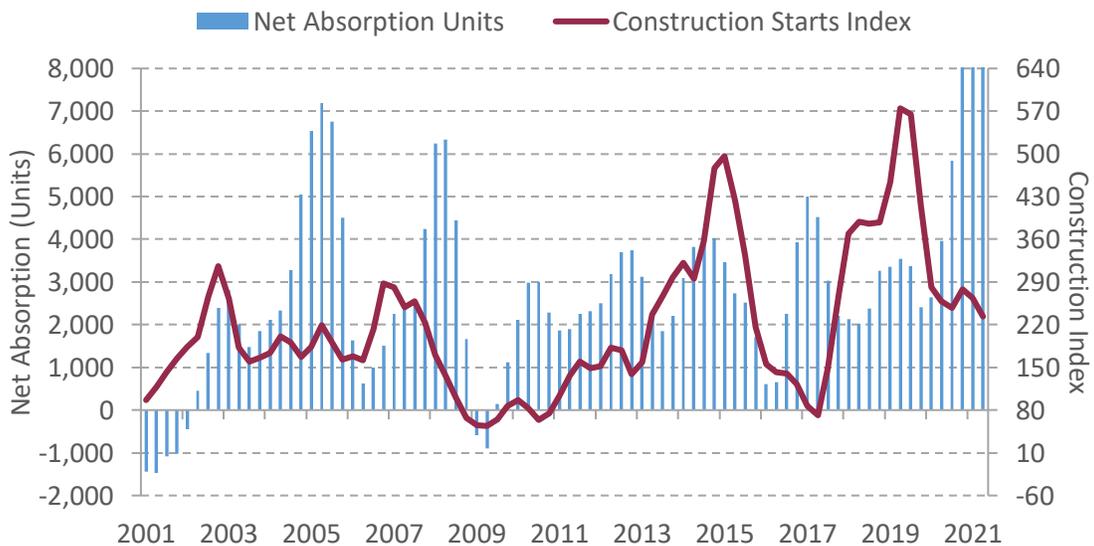
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 17. Houston Overall Vacancy and Effective Rent Growth (SA and TC)*



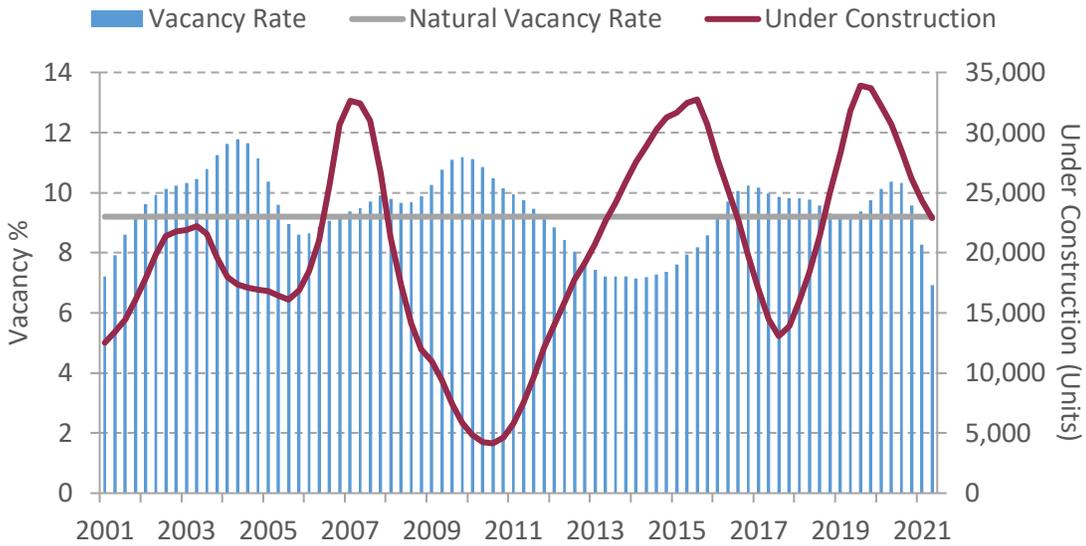
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



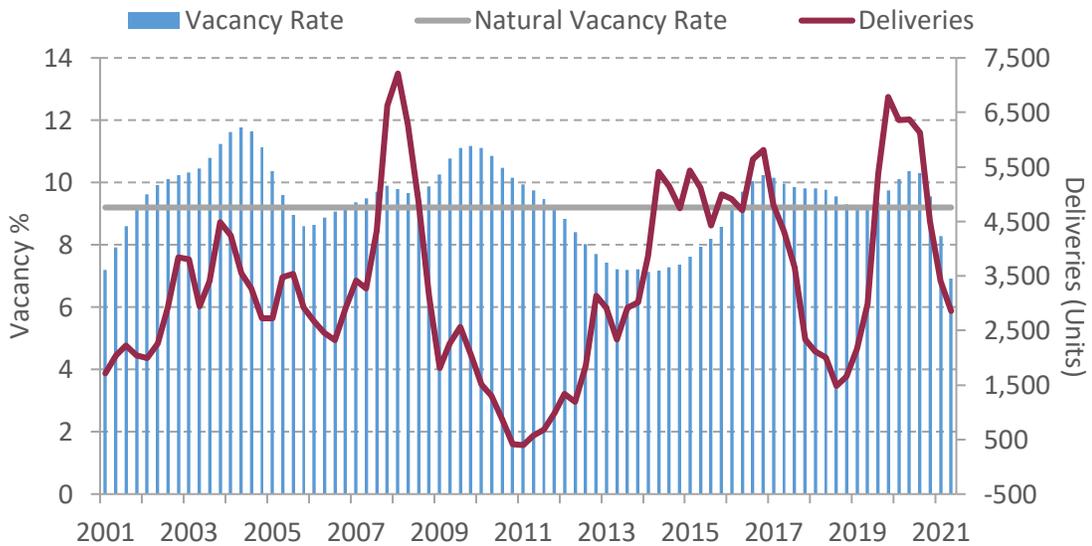
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

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
▲ 93.4%

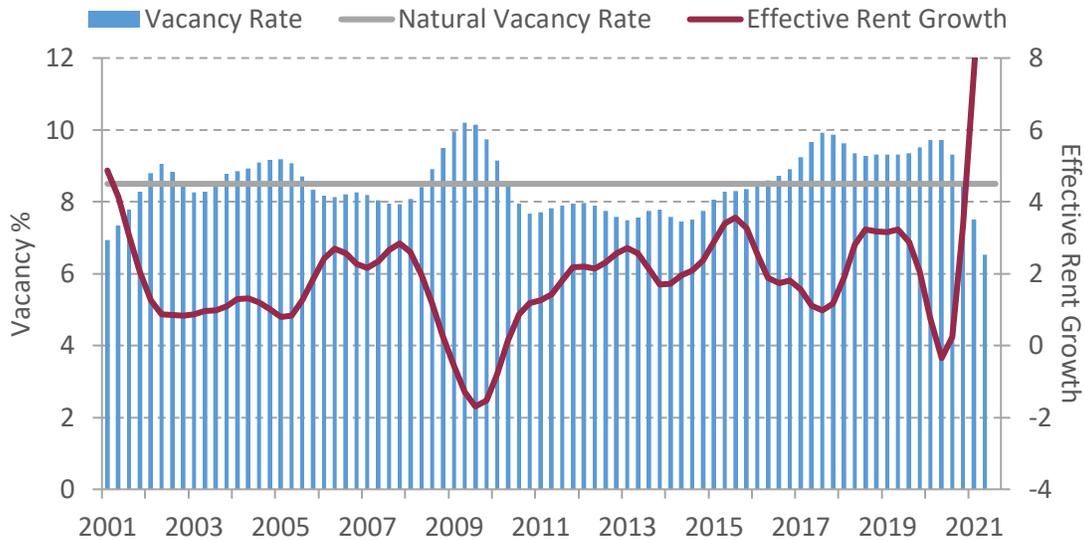
EFFECTIVE RENT GROWTH (PER UNIT)
▲ 12.0%

NET ABSORPTION (UNITS)
▼ 3,346

CONSTRUCTION STARTS
▲

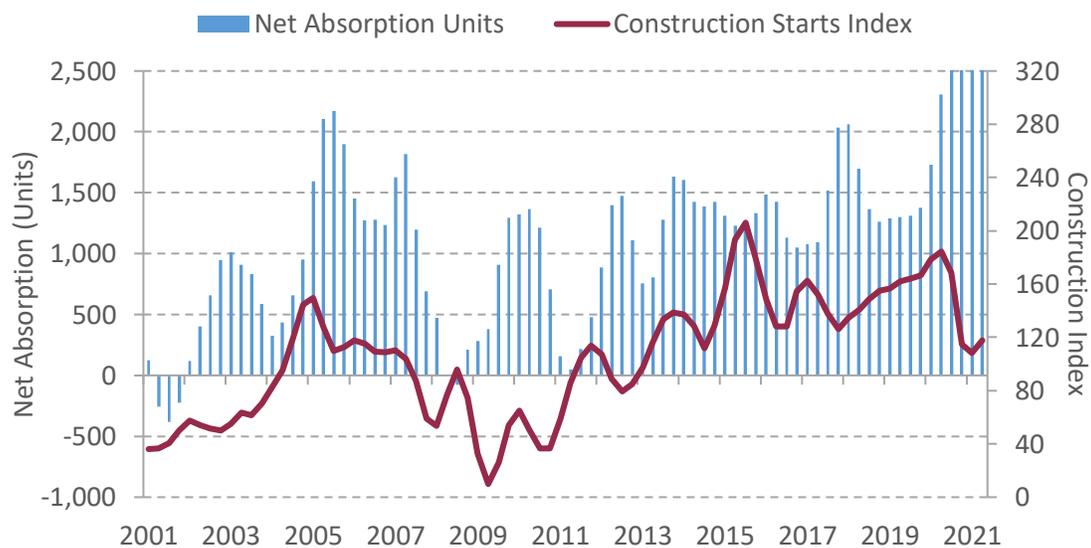
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



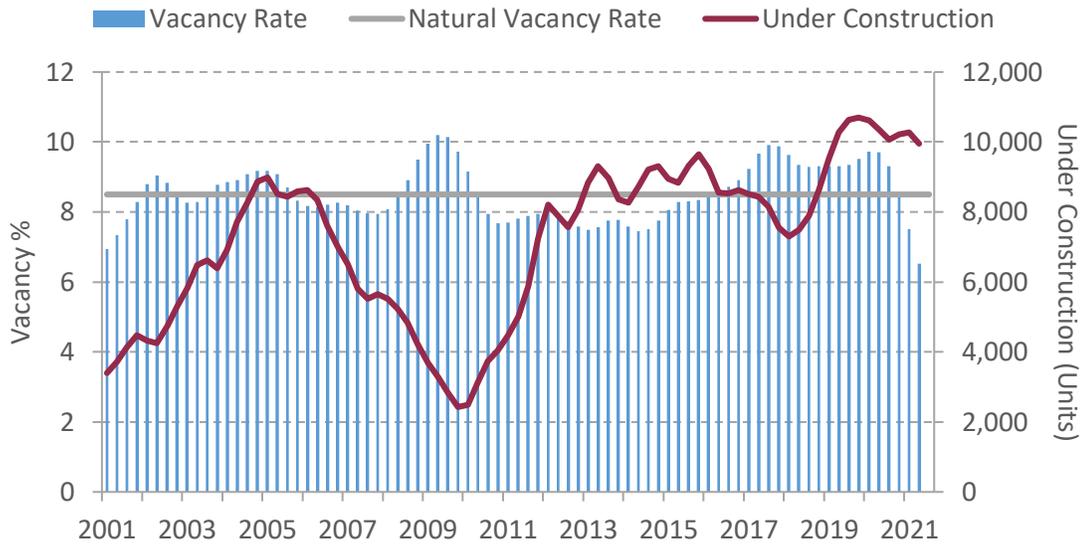
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



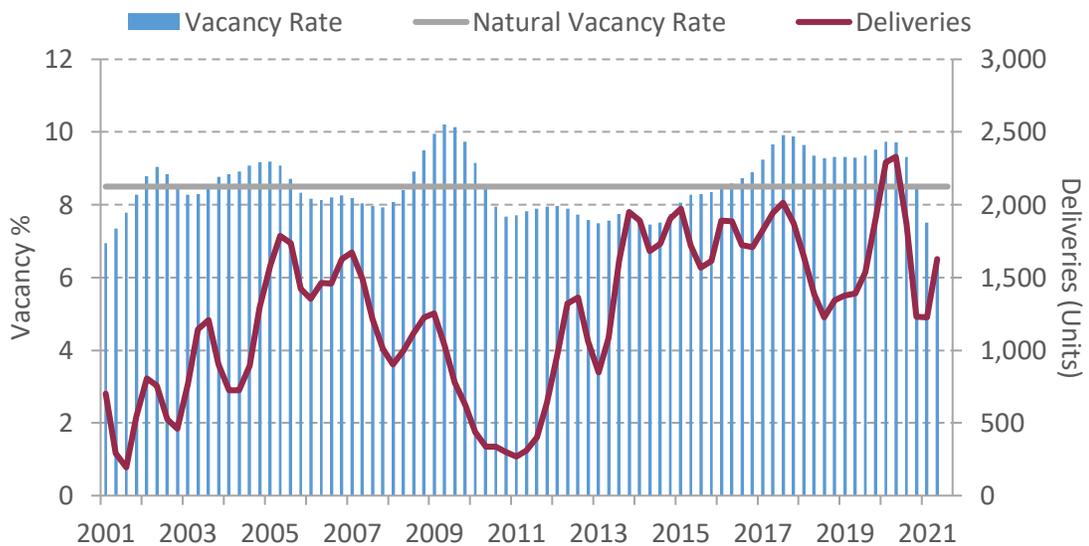
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

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
▲ 93.8%

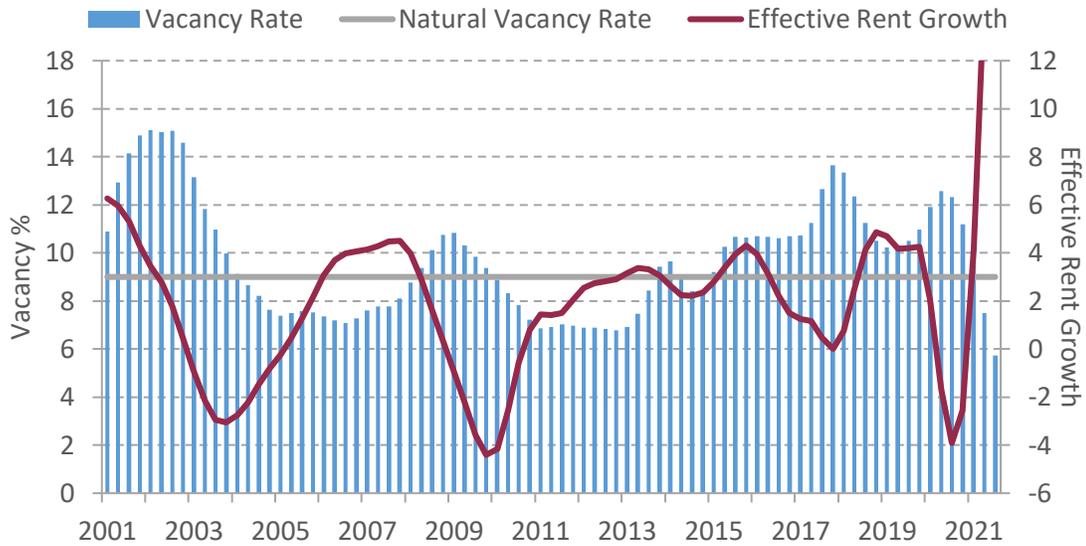
EFFECTIVE RENT GROWTH (PER UNIT)
▲ 23.3%

NET ABSORPTION (UNITS)
▼ 2,257

CONSTRUCTION STARTS
▼

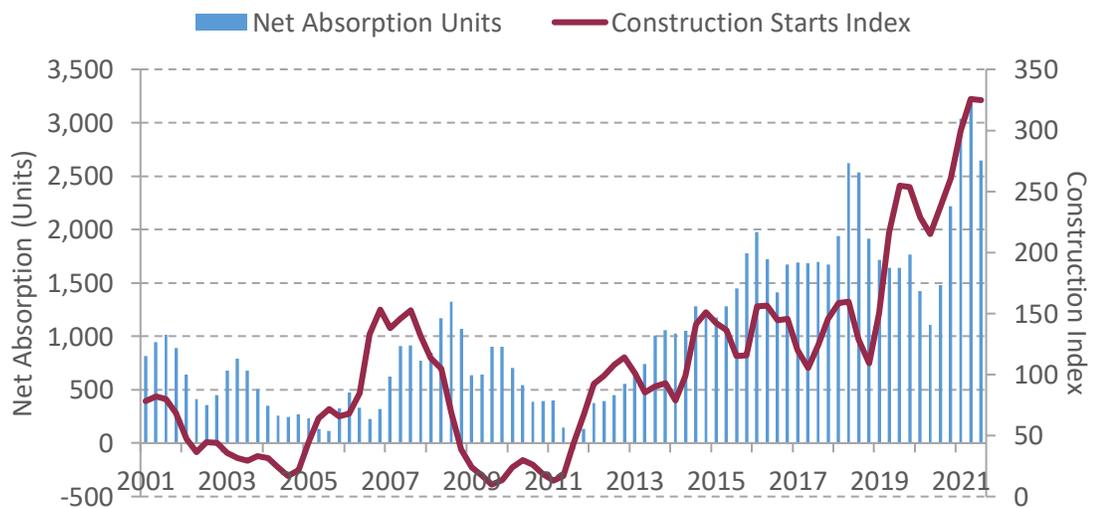
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



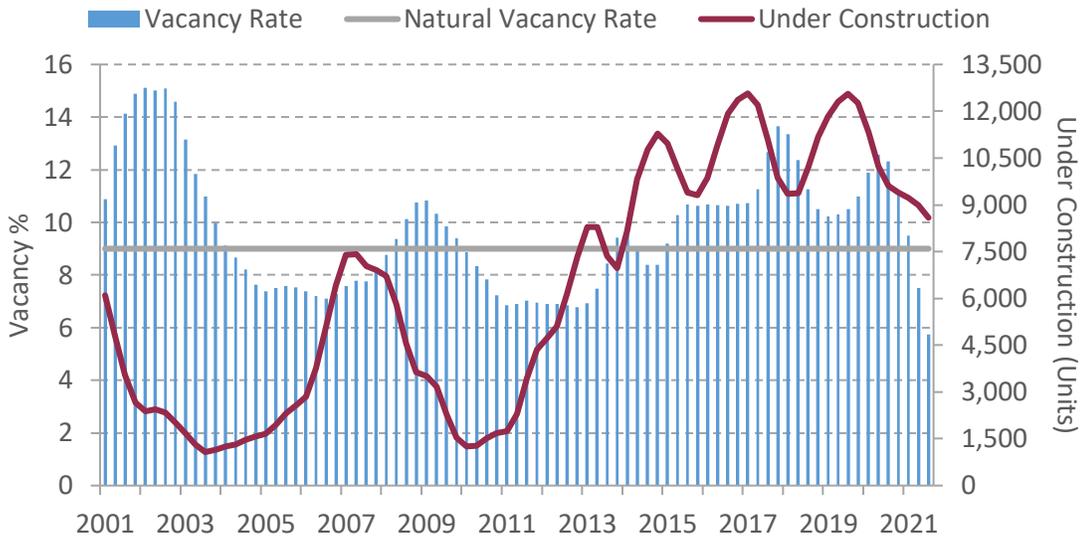
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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

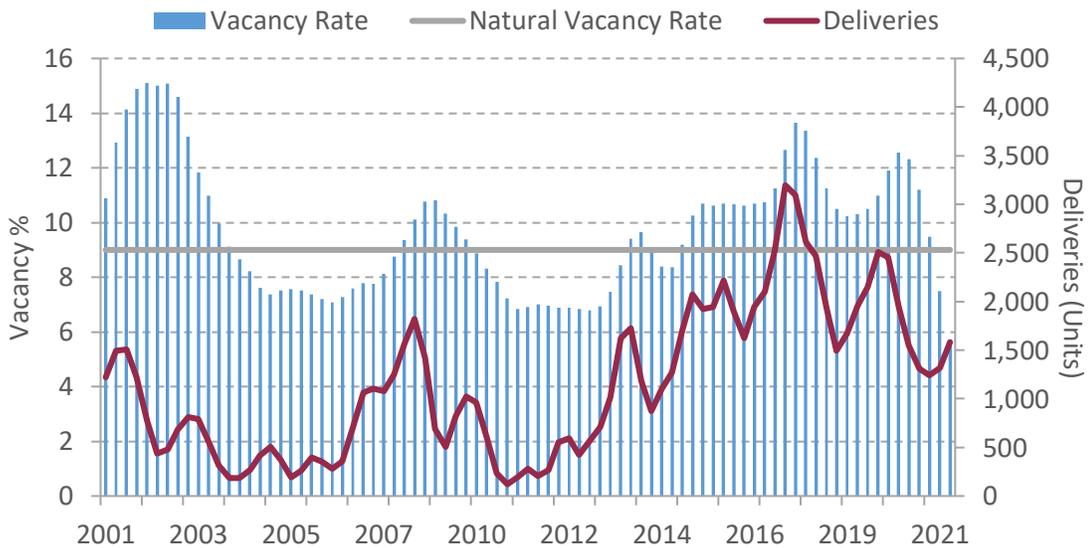
Figure 27. Austin Class A Vacancy and Units Under Construction (SA and TC)*



*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
▲ 93.2%

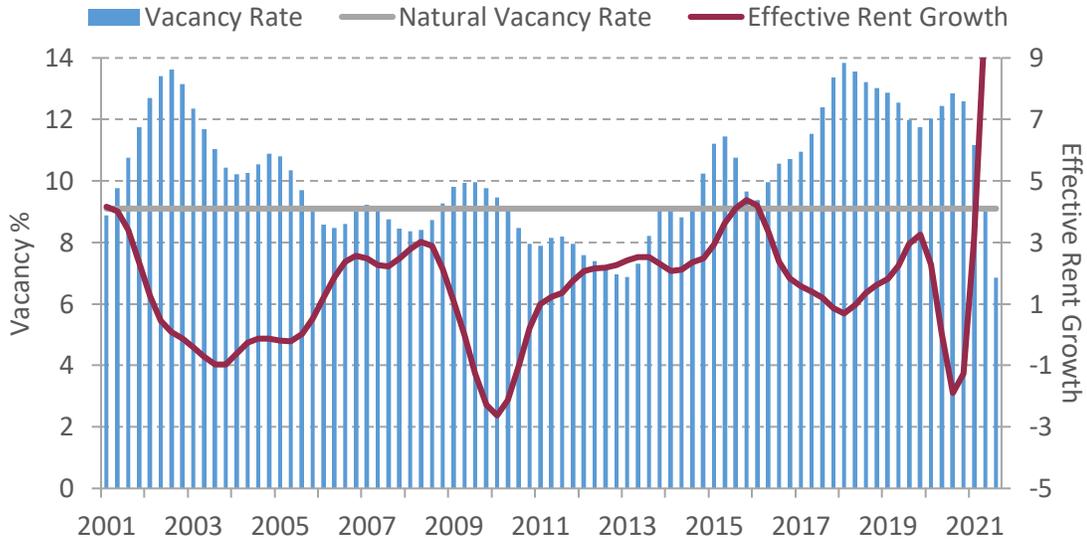
EFFECTIVE RENT GROWTH (PER UNIT)
▲ 17.3%

NET ABSORPTION (UNITS)
▼ 6,897

CONSTRUCTION STARTS
▼

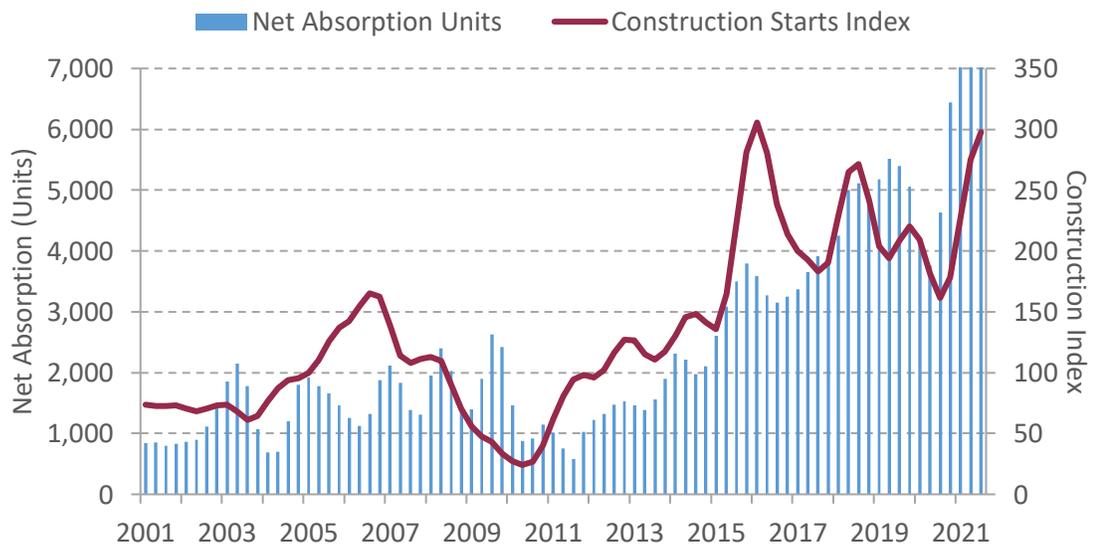
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data. Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



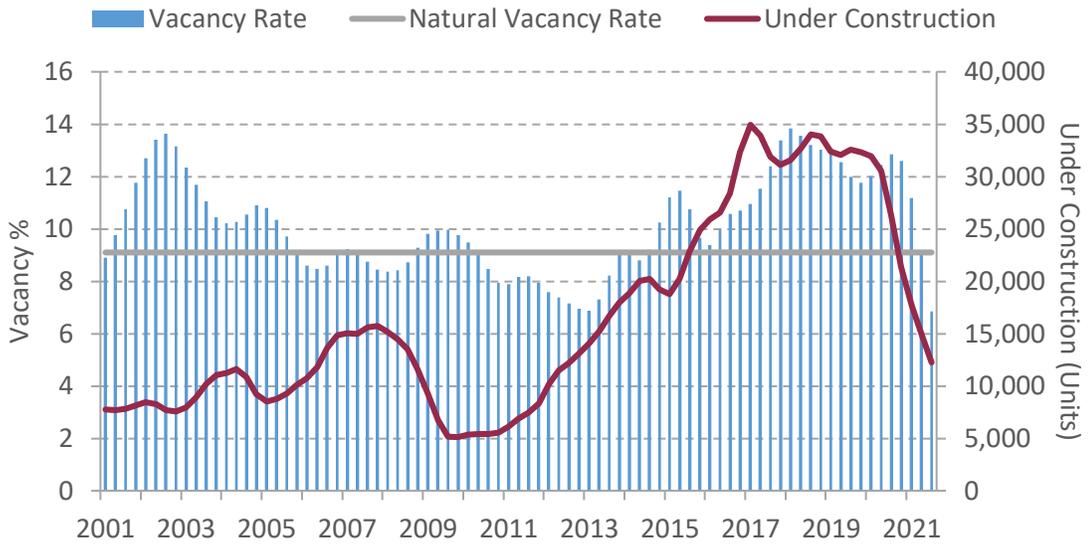
*Note: Seasonally adjusted and trend-cycle component. Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



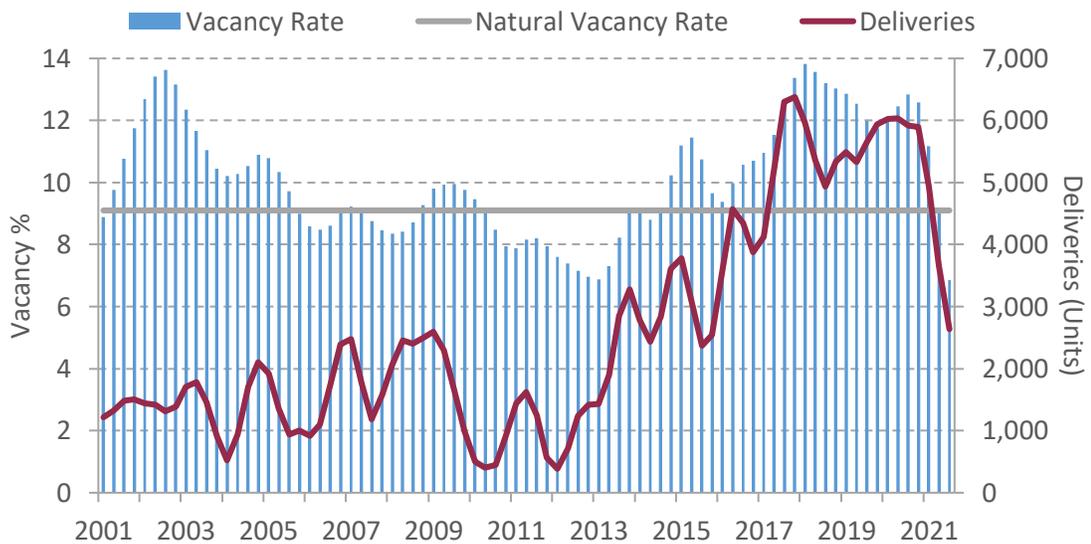
*Note: Seasonally adjusted and trend-cycle component. Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

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
▲ 92.1%

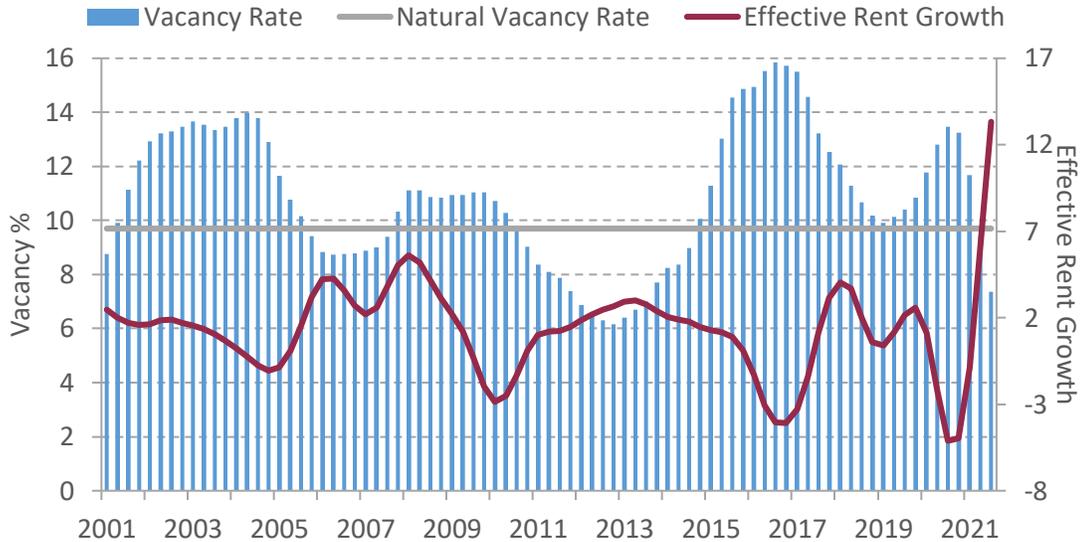
EFFECTIVE RENT GROWTH (PER UNIT)
▲ 13.4%

NET ABSORPTION (UNITS)
▼ 3,651

CONSTRUCTION STARTS
▼

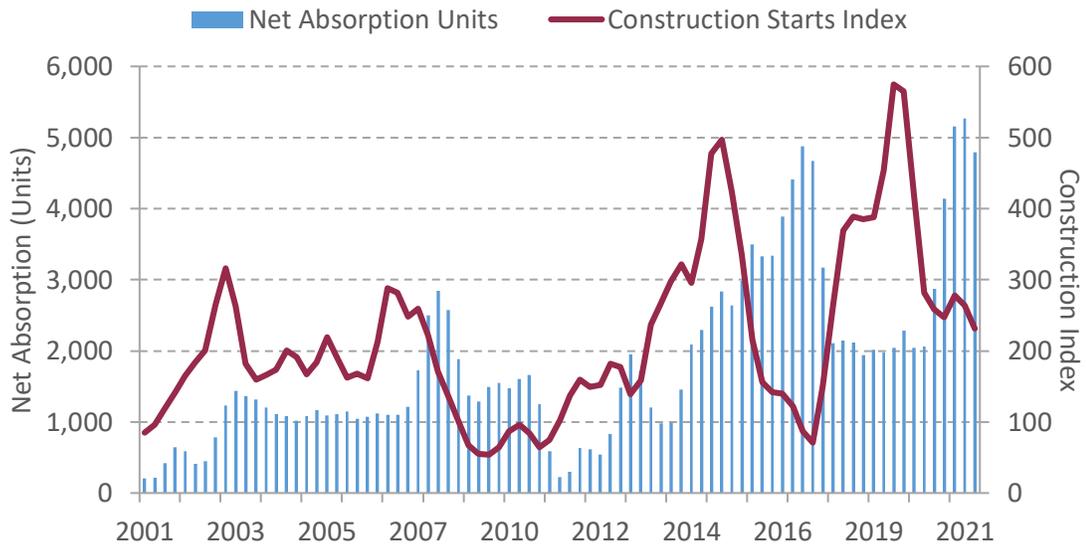
Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 33. Houston Class A Vacancy and Effective Rent Growth (SA and TC)*



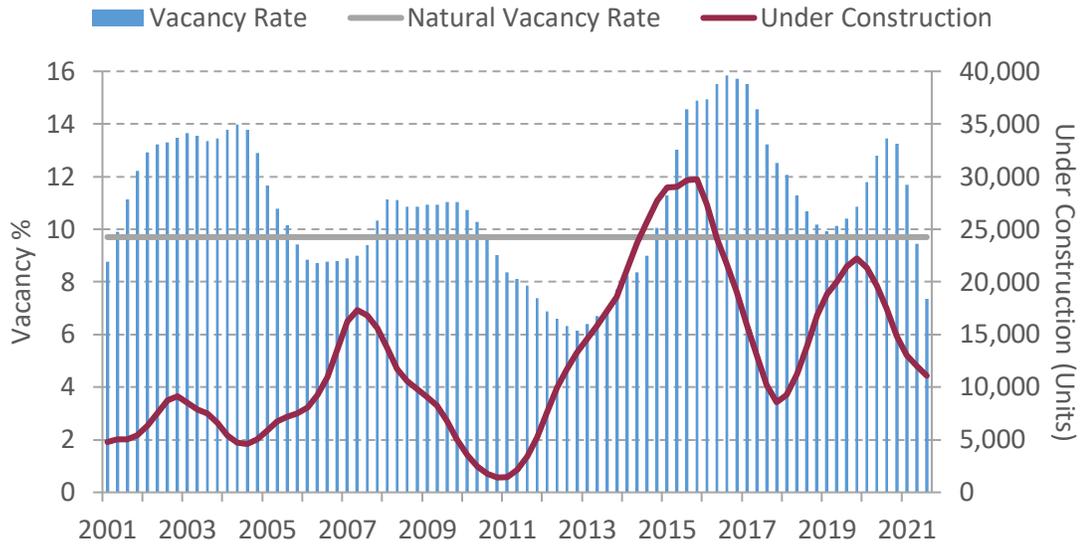
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

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



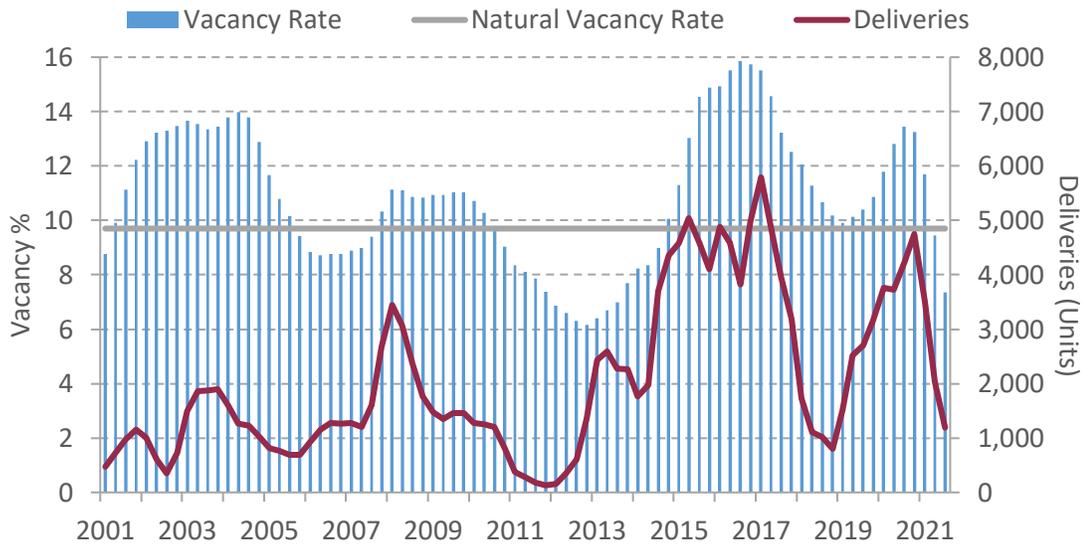
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

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



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and 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
 93.6%

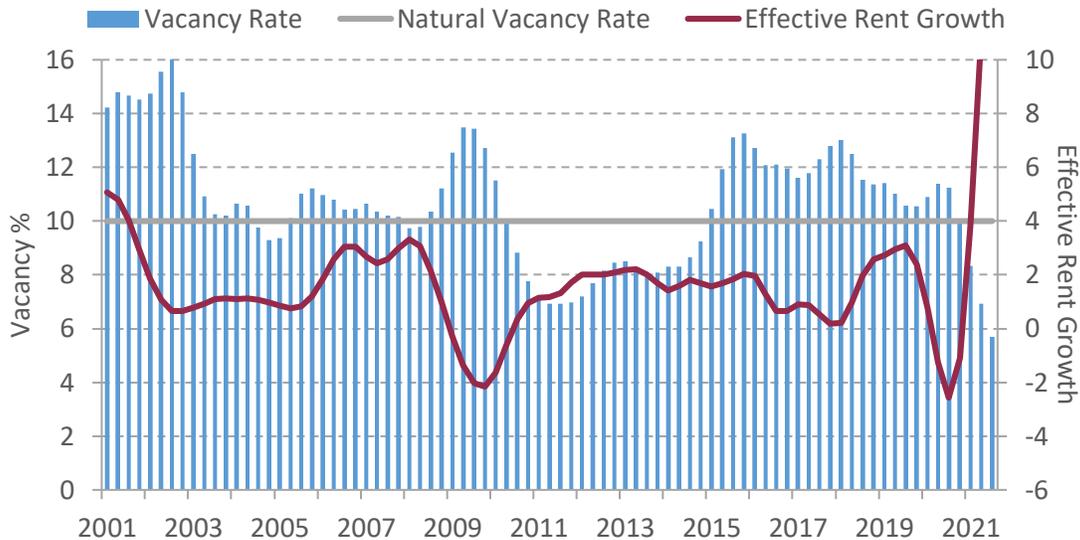
EFFECTIVE RENT GROWTH (PER UNIT)
 17.3%

NET ABSORPTION (UNITS)
 1,145

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 at Texas A&M University

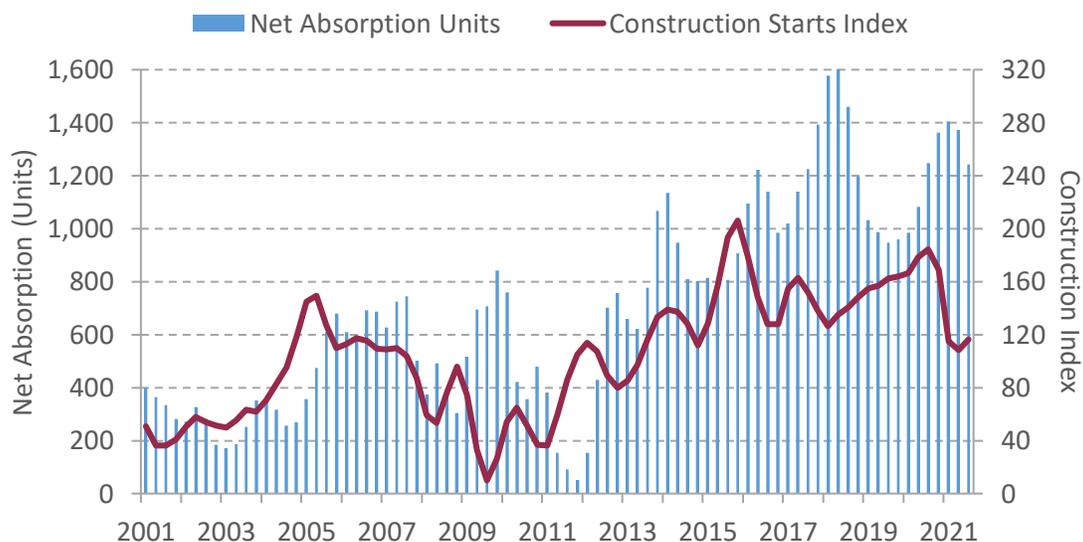
Figure 37. San Antonio Class A Vacancy and Effective Rent Growth (SA and TC)*



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

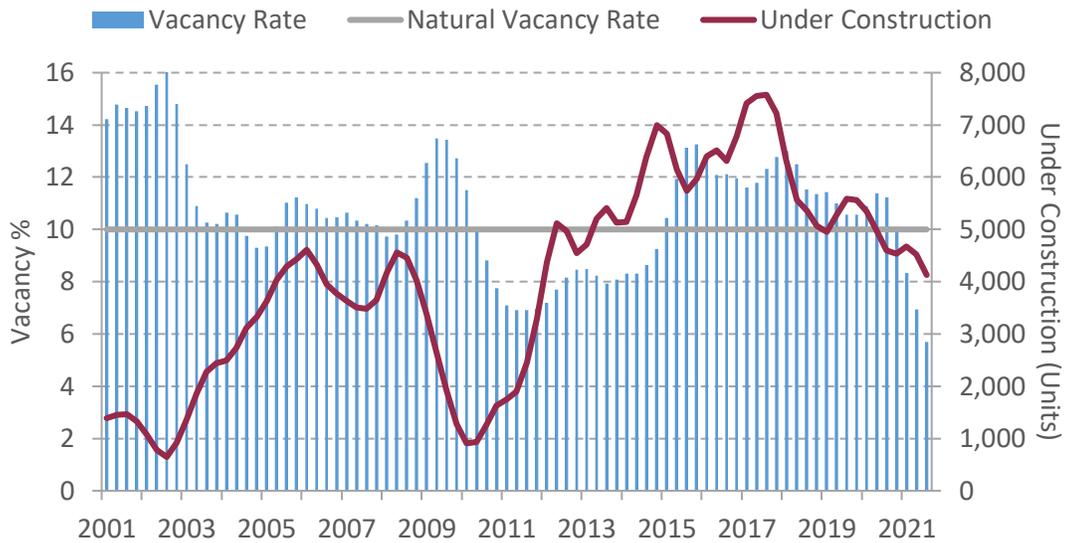
Figure 38. San Antonio Class A Net Absorption and Construction Starts Index (SA and TC)*

(Index 2000 Q1 = 100)



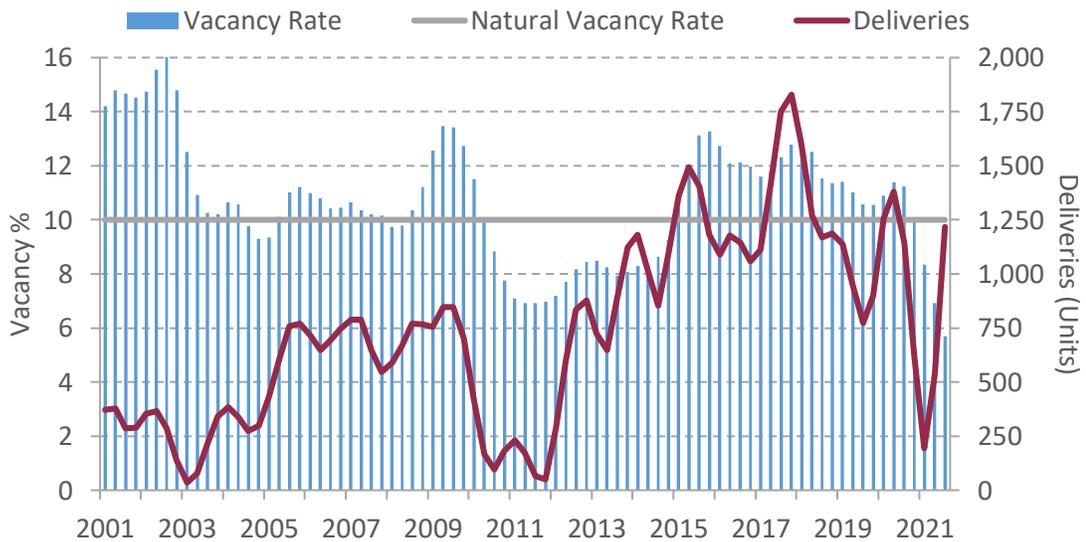
*Note: Seasonally adjusted and trend-cycle component.
 Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

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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