

Demand Breaks Record D-FW Leasing Spikes in 4th Quarter; Average Rents Up 6 Percent

By: Steve Brown, Dallas Morning News

Apartment landlords were mobbed with Dallas-Fort Worth renters in the final months of 2016. North Texas' apartment market saw net leasing of 10,485 units in the fourth quarter—the highest demand on record for a fourth-quarter period, apartment analyst MPF Research said Tuesday. The year-end leasing rush pushed total net leasing for 2016 to more than 27,120 units. That's a huge increase from 17,000 units in 2015. Leasing for the entire year was the second-highest on record, driven by North Texas' huge employment gains and thousands of people moving to the area.

“The leasing was pretty stunning—I was surprised,” MPF Research economist Greg Willett said. “Dallas-Fort Worth is the country's top spot for apartment demand by a huge margin, which speaks to the strength of the local job market and household formation pace. There's a great mix of expansion in both the urban core and the suburbs.” “We saw a couple thousand units stronger leasing in 2000 than in 2016,” Willett said. Leasing decreased overall vacancy in the area to less than 4 percent, making for the tightest local apartment market on record.

With the jump in rentals, D-FW apartment owners were able to hike average rents more than 6 percent in 2016. That puts average monthly rents in the area at \$1,042 at the end of the year. Big increases in rent for older apartments are driving the citywide increases. “That's fueling the overall numbers,” Willett said. In urban areas where large numbers of apartments are being built, landlords are getting only small price gains. “Leasing competition among luxury projects in the urban core is holding the rent increases in that segment to 1 percent to 2 percent,” Willett said.

North Texas is the country's top apartment building market, with almost 50,000 rental units under construction. About 29,000 of those apartments will open their doors in 2017, according to MPF Research. “We're continuing to start about as many apartments as we are finishing,” Willett said. “At least we are not accelerating the under-construction number. But I don't see a huge sign we are going to see a decrease in building.” Most of the apartment building is in Central Dallas, West Plano-Frisco, McKinney and Allen.

“With so many properties finishing during the near term, there will be lots of product moving through the initial lease-up process at any given time,” Willett said. “The question is really whether rent growth will slow a little or a lot. Our forecast calls for rent growth near 4 percent in 2017,” he said. D-FW's apartment market outperformed the rest of the country in the fourth quarter. North Texas has slightly lower vacancy rates and much stronger leasing than most metro areas. Even with recent increases, D-FW average rents remain below the national average of \$1,248, according to MPF. D-FW accounted for 7 percent of the nation's total apartment deliveries in 2016. “The apartment sector's winning streak has run seven full years so far,” Willett said. “While apartment construction is substantial, significant building is justified by the very strong demand tallies.”

JOB GROWTH ¹	Area New Jobs				
	Estimate	1 Mo End 12/30	6 Mo End 12/30	12 Mo End 12/30	
Dallas/Plano/Irving		1,200	64,300	95,300	
Fort Worth/Arlington		300	80,900	113,500	
		1,500	145,200	208,800	
INTEREST RATES ²	Rates		END 1/31	Yr. Ago	
	10 Year Treasury		2.48%	1.97%	
	11th District COFI		0.60%	66.00%	
	1 Mo. LIBOR		0.78%	0.43%	
SUPPLY/ DEMAND ³	Units Added/ Absorbed		6 Mo End 11/31	12 Mo End 1/31	24 Mo End 1/31
	<u>Dallas County</u>				
	Added		4,569	10,342	20,584
	Absorbed		2,129	7,809	20,046
	<u>Tarrant County</u>				
	Added		1,650	4,346	9,750
Absorbed		336	4,800	10,088	
OCCUPANCY RATES ³	<u>Dallas County</u>		12/31/2016	6 Mo Ago	12 Mo Ago
	2010's		79.8%	74.4%	66.2%
	2000's		94.4%	95.0%	94.7%
	1990's		94.5%	95.7%	94.6%
	1980's		94.8%	95.0%	94.2%
	1970's or Older		93.1%	92.8%	92.1%
	<u>Tarrant County</u>				
	2010's		82.8%	75.8%	78.5%
	2000's		95.3%	94.9%	95.2%
	1990's		94.8%	94.9%	94.8%
	1980's		95.0%	94.7%	94.1%
1970's or Older		94.1%	94.5%	92.1%	
RENTAL RATES ³	<u>Dallas County</u>		12/31/2016	6 Mo Ago	12 Mo Ago
	2010's		\$1,483	\$1,490	\$1,380
	2000's		\$1,346	\$1,321	\$1,280
	1990's		\$1,263	\$1,224	\$1,170
	1980's		\$891	\$844	\$770
	1970's or Older		\$829	\$783	\$726
	<u>Tarrant County</u>				
	2010's		\$1,381	\$1,326	\$1,278
	2000's		\$1,154	\$1,120	\$1,065
	1990's		\$1,159	\$1,121	\$1,031
	1980's		\$870	\$812	\$734
1970's or Older		\$810	\$758	\$692	
HISTORICAL JOB GROWTH	Average year change of the combined DFW MSA's				
	2012	79,200			
	2013	95,000			
	2014	141,300			
	2015	116,600			
		1 Texas Workforce Commission			
		2 Banxquote.com			
		3 ALNsys.com - Rental rates are after concessions.			
		Approximately 25% of 70's or older are all bills paid			

Mark Cantrell
214-368-1295
mcantrell@cmi-tax.com

Thomas Hooke
972-630-6696
thooke@cantrellcompany.com