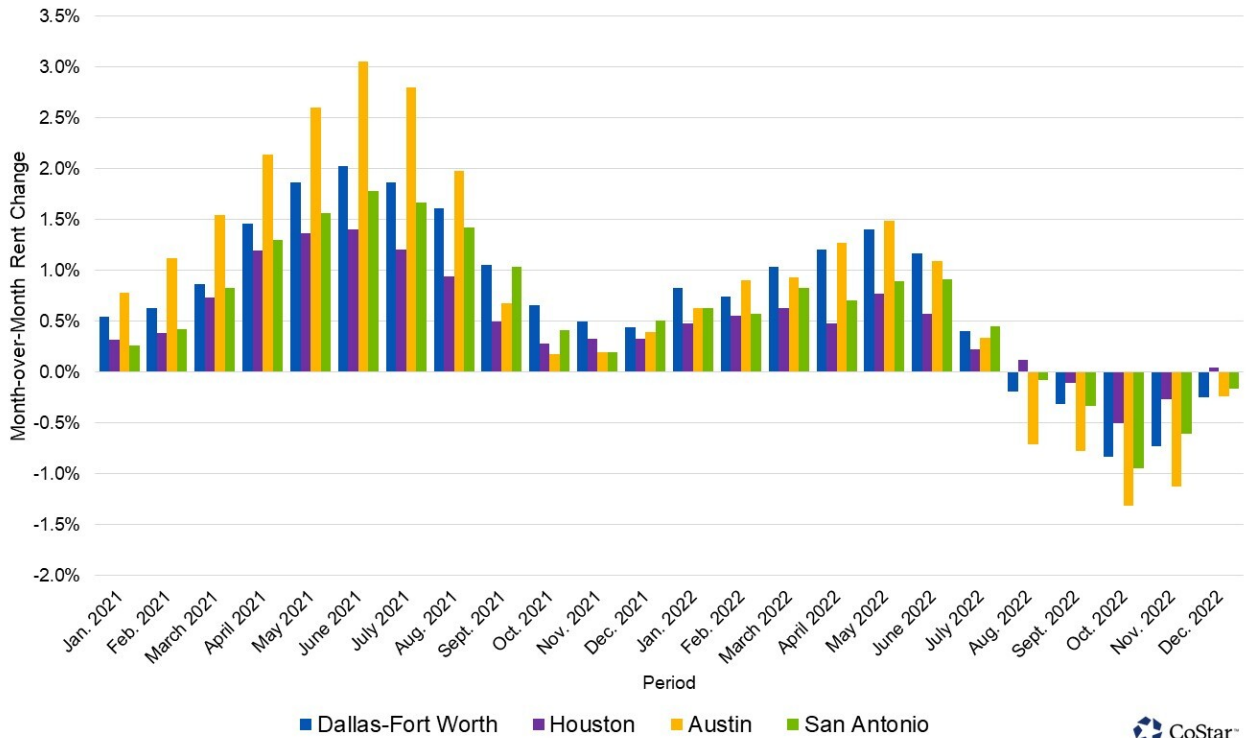


COSTAR INSIGHT

Multifamily Rent Growth Cools Across Texas

Dallas-Fort Worth Leads Performances, While Austin Faces Headwinds

Rent Growth Flattens Across Texas Markets



Source: CoStar, January 2023



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Multifamily rent growth across Texas markets fell from record performances over the past year.

Like most markets across the country, the pace of growth slowed through the second half of 2022. The year was marked by weaker demand due to deteriorating consumer confidence and elevated economic uncertainty, which weighed on household formation.

As a result, Texas' lineup of rent growth leaders shifted, with Dallas-Fort Worth taking the reins and Austin descending the fastest. Both Houston and San Antonio ended the year with growth coming closer to pre-crisis norms. Rent growth performances vary across the state, and the outlook for each market is influenced by individual, localized demand drivers and expected supply.

Dallas-Fort Worth

Rent growth softened through the latter half of 2022, ending the year at 4.2%. The trend was driven by weak demand, with net absorption coming in at the lowest level since 2004.

That being said, rent growth results by quality of assets vary, which highlights the relative resilience of the Dallas-Fort Worth multifamily sector. Properties on the higher end of the spectrum saw rent growth deteriorate the fastest, ending 2022 at 2.8%. Meanwhile, three-star properties reported growth of 5.6%.

Nominal asking rents have grown \$244, or 19%, over the past two years, thanks to record performances.

Looking forward, some projections for Dallas-Fort Worth call for slower rent growth, coming closer to 3%. However, Dallas-Fort Worth's apartment construction pipeline does not threaten to overwhelm the market with new supply and the region's structural demand drivers remain in place. Because of that, CoStar's Trend Growth scenario is a plausible outcome, with growth hovering closer to 4%.

Houston

Houston's multifamily market saw demand reverse course throughout 2022 from 2021's record-setting streak. In fact, net absorption fell into negative territory in the third and fourth quarters last year, marking the first time since 2009 that the region registered two consecutive quarters of negative demand.

Cooling demand can be directly tied to soaring inflation, cutting into potential renters' budgets. Softening demand and an influx of new supply pushed vacancies higher, and rent growth slowed in turn.

In fact, rent growth has been decelerating each quarter since the beginning of 2022. This is anticipated to continue over the near term. Year-over-year rent growth of 2.9% is down from the peak of 9.4% recorded in the fourth quarter of 2021. Looking ahead, CoStar's Base Case scenario forecasts that the pace of rent gains will continue to slow back down toward 2%, the market's typical growth rate during the five years prior to the pandemic.

Austin

Austin experienced some of the highest rent increases in the country during 2021, topping out at almost 19% year over year. The market did an abrupt about face through 2022, however, with the pace of rent growth decelerating consistently through the year. It now measures 2.3%. Compared to the 50 largest multifamily markets in the United States, Austin's annual rent growth now ranks 40th.

While annual absorption has performed well relative to other major U.S. markets, Austin's apartment demand has not been able to keep up with the surge of new units entering the market. Over 14,500 units have delivered over the past year, compared to an annual absorption of almost 8,000 units. The imbalance has led to a 34% increase in the vacancy rate since the end of 2021. By the end of the fourth quarter of 2022 about 9% of Austin's multifamily units were vacant.

Adding to the mounting vacancies, annual deliveries are expected to reach new highs by the end of 2023, at a time when a potential economic slowdown could further dampen demand. This will continue to constrain landlords' ability to raise rents. However, Austin's labor market continues to show resiliency, posting strong year-over-year growth of 4.7% and an unemployment rate of 2.8%, bolstered by growth in the manufacturing and service industries.

San Antonio

San Antonio experienced its [worst year for multifamily demand](#) in more than three decades in 2022, following its best year on record in 2021. The Alamo City has endured more volatility than most multifamily markets in the past couple of years, though nearly every city in the United States has experienced those issues to some degree.

Nonetheless, when put together, the positive net absorption from 2021 heavily outweighed the negative absorption of 2022, and rent growth displayed a similar trend. After peaking above 12% in late 2021 and early 2022, year-over-year rent growth dipped nearly 10 percentage points by the year's end. As with absorption, however, when the two years are averaged, growth has still been quite high throughout this period.

With the largest apartment construction pipeline in the history of San Antonio currently underway, CoStar's Base Case forecast is calling for 12-month rent growth to approach 0% by mid-year, rebounding to levels just shy of 1% by late 2023 or early 2024.

That being said, recent American Community Survey data points to continued demographic momentum in San Antonio, providing the basis for an optimistic view of longer-term multifamily growth dynamics in South Central Texas.

Bill Kitchens and Itziar Aguirre contributed to this report.